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# East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS

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**EAST EUROPE REPORT**  
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HUNGARY

NEW TYPES OF ENTERPRISE MANAGEMENT DISCUSSED

Budapest HETI VILAGGAZDASAG in Hungarian No 27, 7 Jul 84 pp 34-36

[Interview with Istvan Csillag, department manager at the Ministry of Finance, by Janos Marton: "Format Planning"]

[Text] The MSZMP [Hungarian Socialist Workers Party] Central Committee position taken in April on further development of economic management was that perfecting the economic mechanism encompasses every element of the management system: planning, economic regulation, and the institutional and organizational system, and it should assist in the more complete development of the human factors. Among other things the resolution also decrees that two new types of enterprise management formats must be used at the state enterprises, without changing the character of ownership: management by enterprise council and by elected leadership. In the rest of the year, government organs must prepare the statutes for the organizational system and operation of the new types of enterprises since, according to the position taken, further development of the system is to take place gradually, beginning in 1985. We asked Istvan Csillag, department manager at the Ministry of Finance, about modernization of the enterprise organization.

[Question] Since the 1968 reform of economic management, there have been no significant changes in the organizational framework of enterprise management, the enterprise management system has not been modified. Why, at the time of further developing the reform, has such great emphasis now been placed on modernizing enterprise management?

[Answer] Yes, compared to today's mechanism the Central Committee's position brought the largest change perhaps in the parts pertaining to enterprise management. The changes which took place in the last decade and a half, especially in the 1980's, reinforced the recognition that the enterprise collectives must primarily themselves determine their own goals; these can not come from the outside. The market characteristics of enterprise activity must be strengthened, and in harmony with the multifaceted nature

of the market, more and a greater variety of enterprise types must be created. According to the plans there will be two new types of state enterprises: one managed by the enterprise council, and one by management elected by the collective.'

[Question] What will the collectives of enterprise operating with elected management be authorized to do?

[Answer] At the meeting of the workers they will elect the manager, make decisions on the important questions of operating the enterprise, approve the plans, approve the main proportions of spending the income, that is, they will make decisions on personal incomes and development. The general assembly of workers elects the workers control commission which keeps an eye on the enterprise management's activity, makes decisions about modifications in the enterprise's organization, determines the enterprise's interest and decision making system, and sets up—if it deems desirable—self accounting units. Since this type builds on the direct participation of workers, this format could be used mainly in units operating with fewer than 500 employees. According to the plans, in enterprises employing fewer than 300 workers, the workers would directly exercise their decision-making rights in the general assembly; but a collective with higher employment than this could decide to—let's say—elect 100 delegates, or let's say one for each 5 or 10 workers, and these delegates would exercise the management rights. Regardless of size it would be ideal to set up enterprises with such elected management in those sectors and activities where participants of the production process do not form a pyramid, where much depends on the innovative abilities of the workers.

The construction industry, computer technology, and consumer services may be ideal "turf" for this type of self-governing enterprises. In agriculture the state farms are particularly suitable for operating on the self-governing basis. I wish to emphasize that it is not necessary to set too rigid restrictions; in my opinion it is not justified to deny other enterprises either the opportunity to select this format. For example, it could be imagined that larger construction industrial building enterprises would also operate in this format.

[Question] Presumably the workers' representatives are excited most by the possibility of making decisions in connection with increasing wages. Could not the desire to increase wages override the development efforts of the managers?

[Answer] It is characteristic also in Hungary that enterprise management is interested in increasing the size of the enterprise, and obviously the elected managers will not be the exception to this either. And even if for no other reason, then to preserve their jobs the managers will strive to convince the top decision making body to look further ahead beyond the given year. By the way, the theory is not true that the goose that lays the golden egg cannot be killed, that it would be harmful to implement the interest in wages; rather, the burden items today are the many development projects which are proving unprofitable.

[Question] But as long as the workers are making decisions about developments, obviously they will give their votes to the developments to be implemented at the given enterprise. But the national economy's goal is that the means be channelled to the enterprises which operate better.

[Answer] We do not expect that the new channels of the flow of capital will be opened up by the new management format to be introduced at the smaller enterprises, since the very thing we would like is that the smaller enterprises gain strength. The collective can expand capital here by selling bonds, which at the same time is also a new channel for the flow of capital. With this the workers become directly interested in the enterprise's development program. The workers may also exercise other forms of transferring capital independently of this enterprise type. A whole array of suggestions emerged to promote a more intensive flow of capital, such as pledging transfer bonds, or the establishment of enterprises which deal in the leasing of machinery and equipment, and expanding the formats of economic associations with the truly limited liability companies [KFT's].

At enterprises managed by enterprise councils, representatives of the enterprise's managers are given places alongside the representatives of the workers in exercising control, but generally in the same numbers as the subordinate workers. This council also builds on the participation of the enterprise's collective in every important question and makes decisions on strategic questions, including the selection of managers and their recall. The majority of enterprises will belong to this type, this could become the most widespread method of operation for the medium and large enterprises in the competitive sector.

[Question] In addition to this, will there also be enterprises similar to today's trust-type and one managed by the state administration?

[Answer] The trust format will also be rejuvenated, the trust enterprises will be more independent, except for the trusts operating in the meat, dairy, grain and energy sectors considered strategically important and the enterprises which conduct activities built vertically on each other. Apart from accumulating a minimum of joint reserves the enterprises of a trust themselves decide how and on what they want to spend their profit. Thus their declared legal independence may become actual independence inasmuch as they will be independent tax subjects with their own banking relationships but keeping the present trust organizational format. Depending on their character these enterprises may operate in a new format, that is, even within the trust framework they may be managed by an appointed manager or enterprise council. The collective managing body of trusts is the council of managers consisting of the managers of the trust's enterprises; it has the right to make decisions. Just like today, the general manager of these enterprises will be appointed by the main founding authority which takes into consideration the opinion of the council of managers.

[Question] Will the social and mass organizations not be forced into the background in the new management? The Central Committee release also talks

about the workers and not the representatives of the trade unions when it mentions the composition of the body which makes the main decisions.

[Answer] The opinion of social organizations is important, their representatives will participate in the meetings of the enterprise council with the right to debate, and with their suggestions they will obviously influence and convince the council's participants. However, the future operation of democratic forums at the work place will have to be adjusted to the changed organizational conditions of the enterprises; for example, the trade unions will have a different partner and therefore changes will have to be made in the opinion giving and coordinating practice of the trade unions. The workers collective will directly elect the worker delegates sent to the enterprise council. Formally they will be nominated directly by the workers of the shops, plants, factory departments or factories.

[Question] One of the customarily main figures of enterprise decisions, the representative of the state organs, has been left out of the councils.

[Answer] The conclusion can be drawn from the experience we have today that at the market-oriented competing enterprises the advice of individual representatives of the state organs is no substitute for market information. This good advice is also not desirable because of the only too well known mechanisms of sharing the responsibility and avoiding responsibility. Perhaps the views of the state's representatives may meet with the ideas of the enterprise management, but this also involves the danger of incompatibility. On the other hand, the enterprise's collective would be to a certain extent relieved of making the decisions and of following up on them, even though the collective still has to bear the consequences of the decision. Besides, the delegates of the state organs are hardly capable of representing the interests of society as a whole, at best they can state partial branch or functional considerations. At the beginning of the preparatory work the idea arose that in the interest of implementing the state's viewpoints the state's representative should also participate in the enterprise council as the third party, but this idea was discarded because of the experience mentioned.

[Question] Behind the debate about the presence of the state representative there was obviously the essential question of who should control the state's property and how. How does it affect the work of the directing organs if the enterprises take over the rights to control?

[Answer] With the establishment of the more democratic, more independent enterprises our public administration also will become more modern. Supervision of the enterprises operating in the competitive sector will be terminated; it will be replaced by legal control. Until now the national administrative organs, the councils, enjoyed dual rights. Within the framework of supervision they were able to judge whether the enterprise management operated legally, but they could also control the practicality and usefulness of the economic work. They will no longer be able to

exercise this latter right; during the course of legal supervision in the future, they will be able to examine only the legality of enterprise activity and whether enterprise work is in agreement with its internal bylaws. The state administrative organs will not be able to examine, for example, whether by his acts the enterprise manager increased the enterprise's wealth, only whether or not he obeyed the statutes or the enterprise council's resolutions. The state administration exercises such legal control also in questions related to the transformation of the enterprise's organization and the operation of the management bodies.

The new enterprise formats do not change the inspections made by the special authorities, observation of the taxation, fire prevention, KOJAL [Public Health and Medical Clinic for Contagious Diseases] and other regulations. Thus the important thing is that in the future the enterprises will exercise the right of continuous control of property, the quality of their work will be judged not by state organs but basically by the market, and the collective will bear the consequences of this "qualification." Instead of the administrative and informal management methods used earlier by the supervisory organs, simultaneously with the change, the financial and monetary regulatory elements will also gain ground.

[Question] Who will decide about assigning the enterprises to thevarious type categories and when?

[Answer] After the directing organs also worked out the details of the new enterprise formats, the branch and functional ministries together will define the guidelines about which enterprise will belong where. The affected enterprises will not directly participate in defining the guidelines, but after the position has been taken the plans are that they will have the opportunity to make changes, they will be able to initiate their transfers into another enterprise format, or that, for example, their factory units which are becoming independent should operate in a different format. Only after this coordination will the ministries issue the new founding resolutions of the enterprises.

[Question] If later the enterprise does not feel that the given type is suitable, will they be able to change the enterprise's format?

[Answer] Inasmuch as it conforms to the regulations concerning the given enterprise management format, it will be able to initiate the reclassification.

[Question] When will the changeover take place?

[Answer] It can begin with the first of January and at the overwhelming majority of the enterprises it may also be completed by the end of 1986 as a function of how well preparations are progressing and how well the enterprise's proposals are coordinated.

[Question] Presumably nowadays the enterprise managers are weighing whether or not they will lose the advantages deriving from the state's

patronizing, or whether they will make greater gains by having the operation interference by the state administration eliminated. But many people point out that the new, democratic forums will become formalities similar to the other operating bodies if there are not enough development means and wage improvement opportunities for the independent decisions and foreign currency for imports.

[Answer] It is fully understandable that some enterprise managers have reservations since the dependency relationships will change. It is also true that the new enterprise types by themselves cannot cure our economic problems. I think that the modernization of enterprise management in part assumes and in part involves the creation of more predictable enterprise regulations, of a market calculation system, freer use of the incomes, and an earning system which conforms to the manpower market. The necessity of developing these latter also appears in the position the Central Committee has taken. Modernization of the enterprise organization and the changes are closely related; without the democratization of the dependency relationships independence in economic operation can hardly be imagined.

[Box on page 35:] Position

The position taken by the MSZMP Central Committee and published on 17 April 1984 is a milestone in the further development of economic management. The dispute was going on months and even years earlier in trade circles about the necessary and possible directions and extent of changes. The position taken by the Central Committee, and the guidelines defined after it by the Council of Ministers indicate that many important questions have been decided, working out the details can now begin, and the public can also be familiarized with what kinds of important principles and regulations will in the coming years designate the path of economic life and work. Even though the statutes dealing with the greater or lesser modifications of the economic mechanism—we are talking about at least 30 different laws and statutes—are not expected to see the light of day until about October, and the detailing of numerous important measures will not even be done until next year, the trends of progress can be clearly read from the documents published so far.

Since the mid-1960's improving the efficiency of economic operation has become the central question of our national economy's growth—declares the Central Committee's position—and the economic reform introduced in 1968 served this end. Consistent implementation of our guidelines—among other things strengthening enterprise independence and financial interests—was hindered by the central economic administration's lack of ability to always perform its functions effectively enough, and some enterprises were not always able to live up to the new and higher requirements. Later the world economic changes had a direct effect and the Hungarian national economy was able to meet the challenge only at the cost of increasing our foreign debts. December 1978 brought about the turn in economic policy which gave priority to reestablishing and solidifying the equilibrium but this made it mandatory to decrease the domestic consumption of the national income and decrease the rate of economic growth.

It is our basic interest to reach the economic policy goals in the future by increasing efficiency and not by holding down domestic consumption, and this also made further development of the economic management system unpostponeable. The most urgent tasks are increasing the income producing ability of the Hungarian economy and its international competitiveness, and this requires raising the level of efficiency of the central economic management activity expanding the role and operating sphere of the regulated domestic market, and improving the enterprising behavior of the enterprises.

Every element of the management system needs modernization. Accordingly, the methods of national economic planning must be modified and the democratization of planning must be improved. The plans must conform better to the tasks related to the changing foreign economic conditions, plans made for various lengths of time must connect with each other, and once and for all they must preserve their openness. Creating a balance between domestic supply and demand, market control must in the future be handled as a unified task of government. Over the long range it will also be necessary to develop a banking system in which the note issuing, the state financing and the commercial banking functions are separated and in which the role of credit, the business character of financing is strengthened.

Compared to the earlier situation the resolution dealing with transforming the country's enterprise organization contains especially numerous new items: new enterprise management formats are given the green light through which enterprise independence can become more real and economic responsibility more complete. To conform to this, the distribution of work between the state's organs and enterprise management in controlling socialist property and exercising the employer's rights will have to be modified.

Renewal of planning and of the organizational framework of economic operation must proceed in parallel with adjusting the regulatory system to the economic policy goals. The Central Committee's position explains: "Economic regulation, the market, and economic competition must create domestic economic conditions which encourage all participants of economic operation to increase the results and performances, and to adjust with flexibility." This goal will have to be served by more circumspect export regulations than the ones we have today, fewer restrictions on import management, a price system which takes into consideration the market's laws and production's characteristics, realistic income regulation which provides more incentives, differentiating earnings regulations which ensure more flexible wage and manpower management and provides the incentive to increase performance, and then a personal income tax structure which will properly regulate personal incomes.

Some measures related to the further development of economic management will become effective as early as of the first of next year, but many other things will change only in the following years. Today few people can predict when the favorable effects or possible contradictions of those measures will be felt in the economy. But society's expectations, its demand for improvement can without any doubt be felt.

PERISIN DISCUSSES EFFECTS OF INFLATION

Belgrade SOCIJALIZAM in Serbo-Croatian No 3, Mar 84 pp 309-351

[Article\* by Ivo Perisin: "Our New Eruption of Inflation and Stabilization Policy"; material enclosed in slantlines printed in italics]

[Excerpts] 1. A New Title for the Old Domestic Problem of Yugoslav Society

In the context of the relatively strong restriction of consumption, both the consumption originating in personal incomes, and also the consumption originating in social service expenditures and government expenditures, and investment spending in particular, and in the course of several years of conducting a restrictive monetary and credit policy, our economy has come to a halt in a state of stagnation. At the same time, our old inflationary illness has flared up and in 1983 took on the character of a true inflationary maelstrom. Prices, which have always been a big problem for us, have this time wrenched altogether free from control and are stepping up the rate of their growth more and more in spite of the restrictive and control measures that have been taken. Not only has the anti-inflationary projection not been achieved, but many negative processes have flared up, and we seem not to be able to keep up with or monitor them, much less to react to them in a knowledgeable way. The virtual explosion of prices is only an expression of all that.

Now, following that "explosion," the inflationary charge is so evident that it is almost nonsensical to speak of a mere explosion of prices. /This time we are dealing with an explosive inflationary process which is not showing any signs of calming down whatsoever./ It is also in this, and not just in its quantity, that this inflationary process differs from all previous--and not so rare--explosions of our prices, which have been a kind of concomitant and form of expression of our constantly suppressed inflation. The inflationary tension seems not to be exhausting itself this time. On the contrary, it is increasing. /This is the specific feature of this inflationary process./ This time everything indicates that we have entered the state of galloping inflation and have moreover exhausted the means previously used for restraining it, and we have not found new ones.

\* SOCIJALIZAM is opening a discussion concerning the Anti-Inflation Program and the problems discussed in this article; the contributions to the discussion will be published in one of the forthcoming issues.

In 1973 and 1974, and then in 1979, 1980 and 1981, were years of marked explosion, while 1975 and 1972 were years of suppression.

This strong zigzag movement of our inflation imposes the task of going behind the scenes and seeing what is happening behind the veil of inflation. I assume on the basis of a multitude of facts that we would then be able quite clearly /to see the powerful inflationary spring/ which has been built into our economic life, /as well as the means of suppressing it/. Without diminishing any strong exogenous influences, such as the petroleum and interest rate shock and changes of a "terms of trade" nature--we would then be able to explain the 1983 price explosion more easily, one which in many respects is a specific example of a strong explosion which at present offers no prospects of calming down whatsoever. The prospects for a calming down of inflation are not suggested because of the strong inflationary charge which was carried over into 1984, but also because the "old" means of suppression have been exhausted, and new ones--by all appearances--have not yet been found.

The deficits in the balance of payments which had been the means of controlling the inflationary spring--eventually had to cease to be such a means. Added one to the other, they did not change nature--ever more mercilessly they were transformed from income into expenditure, even when the foreign debt was growing, as has been the case since 1980, since that inflow was smaller than the amount of interest paid out.<sup>1</sup>

In connection with what we have said the old domestic problem took on new content and a new title, and that is: "How To Take Control of Inflation When Its Charge Is Very Strong, and the Old Means of Suppressing It Has Been Utterly Exhausted, Means Which Once Might Have Seemed Inevitable, and Indeed Even Worthwhile, But Which Nevertheless Has Turned Out Not To Have Been So." /The question of why a mistake was made even here is an integral and essential part of our domestic problem, which is like a problem from a textbook, and at the same time a fateful one for our life./

This present highly charged inflationary process is not in accord with the fundamental tasks which confront us and constitutes a danger of the first order to their performance. There should be no need to explain that. The awareness of the kind of danger threatening from that direction makes it a necessity that that task of ours which we have already mentioned be worked out thoroughly and precisely and that the causes and nature of our inflation be clarified in that statement and that in particular the causes of its new acceleration and thrust be examined, since it is here, by all appearances, that we seem not to have cleared things up completely. Related to that /there must also be debate, and that as to whether the right means of halting it have in fact been found/.

By all appearances at least two conceptions have come into conflict here; the one which was formulated very realistically in the "Anti-Inflation Program" has been thrust aside entirely into a corner, and some sort of variation of anti-inflation policy has been applied which in many respects does not conform to the nature of our inflationary disturbance, and for that reason has been unsuccessful, counterproductive and de facto inflationary.

/This assertion is open to dispute/, so that it must be argued very thoroughly.<sup>2</sup> However, if the case is to be made and lessons are to be drawn therefrom concerning anti-inflation policy, we need to go back into our past so that we might find in it /the germs/ which have grown up to become an ever more obvious disturbance, but also to discover why we are helpless to prevent this. We have to find the "culprit"! Without those revelations we might again find ourselves off the track and remain there. That danger threatens us exceedingly. An ideological accounting will also be inevitable in those elucidations.<sup>3</sup>

Along with all this, at least something has to be said by way of introduction about anti-inflation therapy in general and in that connection about interpretations of inflation as well. We will reduce the latter to several of the most basic designations so as to leave as much room as possible for an analytical examination of that seed of our inflation that was planted long ago and in particular for covering the inflationary eruption in 1983 and anti-inflation policy, which itself is imposed upon us, but we are still arguing about many things in this area.

## 2. Similarity, Difference and Our Specific Context

The inflationary phenomenon is very complicated and diverse by nature--historically and regionally. The earlier inflations scattered down through history are of a different nature than this present-day inflation since the war. But there are also many differences between inflation in various parts of the world and even within those parts. That is why the inflationary process cannot be explained by any single scheme which could become the basis for working out some prescription of a universally valid anti-inflation policy. Nevertheless, for many uninformed people all inflations are identical, which is why it seems to them that the solution ought to be simple. Those who think that way comprise a majority. They can be encountered everywhere. They even exist among politicians and economists. It is no accident, then, that so many economists take up the treatment of this phenomenon, among them even many beginners.

According to this simplified conception--and followers of some kind of radical economy, /among them many well-intentioned people/, stick to it like flies to flypaper because of some kind of common sensical logic which it has--inflation is a monetary phenomenon, and that means a phenomenon that occurs when a great deal of money goes in search of a relatively smaller quantity of goods. As though blinded, these numerous well-intentioned radicals fail to understand that there might also be certain other driving forces of inflation which are in the system, in the social relations of production, in the structure and organization of production, or indeed in some other set of circumstances which tend to bring about low efficiency, productive feebleness, and thereby influences the costs of production as well.

It is interesting that the supporters of such conception include even Soviet economists, who are still explaining worldwide inflation mainly in terms of the disproportionate swelling of the channels of the circulation of money with an excessively large money supply, although at the same time they hold

in the most orthodox way to Marx's criticism of the quantitative theory of the value of money.<sup>4</sup>

The theory of demand inflation is a derived version of this simplification. If that is the case, then by the logic of common sense there are no dilemmas whatsoever about the anti-inflation therapy. One needs only to reduce the quantity of money or effective demand--which in the simplified version is one and the same thing--and the problem will be solved. Here again we seem to be talking about a blindness which prevents one from seeing even what is crying out to be seen, such as, for example, that the prices of bread have risen after the price of wheat rose, and the prices of the latter rose because, given the way in which that production is organized, all its production costs have risen....<sup>5</sup>

It is only blindness or oversimplifications which can explain how many "radicals" there are who demand amputation of that excessive demand and who do not ask where that leads, thereby giving an impetus to that radicalistic current which has its eyes on a calculated goal of a redistribution which is unacceptable in terms of social welfare.<sup>6</sup>

More concrete studies indicate by contrast that the problem of inflation is diverse and far more complicated and that it cannot be reduced merely to the problem of monetary policy and regulating demands. Yet hardly anyone excludes the possibility of an inflation which is predominantly of a monetary nature. However, almost all the treatments emphasize that this version of inflation cannot be generalized, nor as a rule can it be taken as a guide for practice in economic policy, since if nothing else this neglects the complicated dialectical relationship between price and money (or supply and demand) and the interaction of the entire set of cause-and-effect relations and factors spread between the two poles which are at the focus of consideration. Only in exceptional and special cases is it not possible to deny the sound foundation for this monetaristic interpretation.

It does have its sound foundation in all those cases of what can be called "money showers" when the monetary authority, utterly irresponsibly, opens the money faucet as a way of "solving" certain problems or achieving certain goals which it has raised on the pedestal of priority. We are not interested here in the considerations and diverse explanations of such practice, which as a rule is nothing other than abuse of note issue. Such abuses can usually be related to unstable political regimes which by injections of money are striving to cause some visible, if only short-lived effect that would animate the masses. But precisely that practice is usually related to unproductive expenditures, and it acts like a drug: "it begins with enjoyment, but it ends with suffering and ruin." However, even in such cases of inflation, which could be treated as a political phenomenon, we should not forget all those relations which feed inflation and which are in the structure of that economy and have a restrictive effect on all the production inputs, on economic development, on employment, and on the personal and social standard of living. It is not enough to say "we need to work more and spend less," since the basic question and problem are how to reach the point of working more, producing more efficiently and spending less.<sup>7</sup> Draconian measures, as history

has shown, have not proved to be successful. As a rule they all have drastic economic, social welfare and political consequences.

Another case in which this explanation has some soundness is in almost all noneconomic disturbances, such as periods of war or some cataclysm which has caused a catastrophic drop in production. Then a kind of nonvalue law imposes itself involuntarily ("rarity is value")—that is, the state of scarcity—which the monetary authority cannot neutralize by suddenly reducing the quantity of money. Here again we have a disproportion between the quantity of money and the quantity of goods offered on the market, so that it can be said that here again too large a quantity of money is chasing a quantity of goods which is too small. But even here it can be noted that this is an utter simplification of the problem. First, because the quantity of money in circulation is a value already given, and should it be reduced--by taxes, forced saving in time deposits, or a reduction of expenditures--that would not solve the problem of scarcity. It would remain, and perhaps would even be accentuated, since then there would be a lack of money not for consumption, but for the production which is the only thing that can solve the problem of scarcity. What is more, the demand would be maintained with the help of the transformation of quasi-money into money as well as of nonmoney forms of property into a special form of circulating purchasing power, which would neutralize the effect of the monetary contraction, but would have no effect at all on the state of scarcity.

What we have said above, which has been widely treated in historical annals, indicates the complexity of the relations between price and money. However, none of this negates the influence of the quantity of money, but in the sense of the totality of resources which are able to take over the function of money as purchasing power and a means of payment.

This explanation can also have a sound foundation in our practice of lax opening of the monetary valve and of issuing a large amount of credit. But even in this case of ours every study of any depth into that expansive monetary practice reveals that it has been based not so much on our monetary lackadaisicalness or incompetence--though there has been that--as on the relatedness of that practice to certain important defects in our system for expanded reproduction, in which the monetary system has become rather independent and has grown into a credit and note-issue mechanism engaged in the multiplication of deposit, which signifies money, and has at the same time been involved in a strong transformation of the maturity structure of deposits, which is nothing other than the issuing of money capital. This defect was not detected and clarified in good time, nor has it been altogether acknowledged even today, although certain analyses have called attention to it with a well-argued case. Only recently have more and more analyses pointed to the fact that the high rate of gross investment was achieved by inflationary financing and that as such it had to have a strong inflationary effect. That inflationary effect, in the years when it was strongest, was concealed and suppressed by imports from abroad, and those imports were not possible—even in spite of the remittances of foreign exchange--without borrowing abroad. Aside from that, our unrestrained waves of investment suffered collapses, and what is amazing, the additional and very strong inflationary consequences of

those collapses have never been officially assessed, although they were catastrophic. The collapses of the investment waves lengthened the periods for activation of investment projects already begun, and by that very fact incapacitated those investment projects for efficient future production. There can hardly be any debate about that today. However, what has remained debatable is how it was possible, in 1979 say, at a time when the money accumulation formed amounted to only 24.6 percent of the social product, the rate of gross investment reached 45.5 percent of the social product and thus created an enormous gap in the final distribution of the social product, which was compounded even more by means of its influence on other categories of consumption as well as on all material costs. This has remained a debatable question, although it was obvious that this could not have happened if a major defect had not been built into our system for formation of money accumulation. /However, that defect has not been figured out./ Precisely that /fact of the defect not being figured out/ in the system for the formation of accumulation--/or the questionability of what it consists of/--has been the cause of ever more pronounced economic instability and of all the inflationary manifestations which have accompanied that instability. And the debates have gone on, indeed for years.

Some have felt that personal incomes were the main problem and believed that holding them within some limits would create room for accumulation and thereby for balance between savings and investment. This thesis, which goes back almost to the dawn of history and which does not flinch even from cutting into the flesh, was applied even in our country in that difficult post-war period. In exceptional cases it may even make sense; however, it very quickly smothers the driving force of labor, and it is markedly adverse under conditions when personal incomes constitute only a part of income, and especially when various sources of uncontrolled income have a large share in consumption.

But others felt that the basic problem was not there, but in the centralization of accumulation and in its multiplication and consequent distribution, and therefore in its being both unrealistic and irrational, with negative effects of all kinds.

Always, to be sure, there were also those who pointed to the expansive growth of bank credits extended to the economy to finance current reproduction and who presented the argument that economic entities were borrowing without much thought and without knowing how to manage their finances. That being their case, they constantly demanded monetary restrictions and a more restrictive monetary policy and they pleaded for harsh financial discipline. In spite of the fact that the total amount of money and credit as a rule kept up with the growth of the nominal social product in a rather effortless and passive way, still every attempt at a more restrictive monetary policy and discipline proved unsuccessful. Illiquidity, accompanied by a buildup of debts and accounts receivable, manifested itself very quickly. And (although this has not been understood even today) /that had to mean that they had not spotted the real breach in the money system--which is related to the system for the formation and use of accumulation--through which money is constantly flowing out of the economy and flowing over into investments, and that in multiplied

proportions/. In the same context they were also unable to explain how the nominal social product and the total volume of commodity-money transactions were steadily pumped up, making the amount of money in circulation inadequate.

Monetary policy blundered on in that unclarified confusion, and moreover it was constantly receiving additional loads from participating in interventions of various kinds—from floods and earthquakes all the way to jumping into the breach concerning certain large investment programs which had fallen into a crisis. However, even forced moves of this kind, which are undoubtedly inflationary in character, were only an expression of the defectiveness of the system for formation of accumulation, which is what got us into the crisis.<sup>8</sup>

Only when society found itself facing a profound economic crisis—and when as a consequence of the existing system for the formation and use of accumulation, that is, for financing reproduction, the economy got itself into a state of almost unimaginable indebtedness—was a /new diagnosis/ made. The principal cause was found in the unrealistic price of money and money capital, and the emphasis was accordingly put on the demand for a "realistic rate of interest" and then for a realistic price of the factors of production. Day after day that demand became louder and louder and in the end was expressed in criticism of some kind of "consensus economy," an economy without economic coercion. This pulled all the explorations and wanderings of Yugoslavia out of the context of efforts and almost utterly wrenched and separated them from our reality in development, which means that it also neglected our specific context, which is primarily that in spite of all the proclamations we have not succeeded in shaping the independent and self-managing organism of the basic social cells that would be able to make decisions on its own and social development on the basis of the direct interests of the producers associated in it and of optimalizing that development—in relationship with the other cells. Success was not achieved in that in spite of all the attempts, since the basic defect we have mentioned, which was becoming an ever more dangerous contradiction in the system, had been built into the system. That contradiction in the system was bringing about a continuous alienation of money accumulation from the producers, and thereby made them completely dependent in the constant round of the process of production and sale from its beginning to its end. Which is why their attention was shifted from what was crucial—and that was expanded reproduction and the condition for it to take place—to the narrow segment which was left to them for the inevitable collection of some kind of return for their manpower expended. Others took over "concern" about expanded reproduction and overall social reproduction, and those are the ones who took over all money accumulation as though it were their own, and that "concern" was utterly distorted (which is why we put it in quotes). It was transformed from responsibility for that necessary coordination into a competitive voluntarism of numerous power centers, whereby the breach in inflationary financing was broadened, and the investment front was broken up even in the most sensitive capital-intensive sectors. Only on that material basis and on that kind of social relation in disposition of the "surplus value" was it possible for the eruptive volcano to become stronger and the inflationary eruption to remain "unnoticed," and for some kind of consensus economy to come about in which "the saints divide up the treasure, but not only that existing treasure," but also, through compromises, that which did not exist.

However that may be, and there will be something more to be said on the subject in this article, it is an irrefutable fact that some kind of "mysterious" generator of unrestrained investment boom did take shape in our country.

Although that generator of ours was specific, it could still be related to certain things we know from world practice. (Its specificity--let it be mentioned in passing--lay both in the intensity of that process and also in the social basis which made it possible, and that social base was located at the starting position of the producers, who were placed in a financial dependence on the credit mechanism and therefore fell into an ever greater dependence, unthinkable anywhere else, and indebtedness to the bank. That growing indebtedness of theirs became a permanent basis for extraction of their money accumulation, the centralization of that accumulation, and the steady augmentation of its fabrication and distribution for diverse investment projects motivated by numerous considerations and altogether insufficiently by any criteria valid in the world at large.)

Leaving to one side for the moment that specificity of ours, and seeking a similarity with what has happened in world economic developments, we need to emphasize that all the analyses of the process of conjuncture indicate a relationship of the monetary sphere with the relations and patterns in the process of the formation and use of money accumulation. No one, as has already been said, denies the money sphere here, nor indeed even the quantity of money, as factors in the causal chain driving inflationary developments, but still they point increasingly to the simplifications from which altogether mistaken conclusions were rather often drawn concerning a therapy based on monetary restrictions. The same can also be said of the derivation of the theory concerning the inflation of demand, which is only a variant of that monetaristic theory.<sup>9</sup> Marx worked on this particularly, proving that there is a socioeconomic law dictating the process of capital formation and the growth of production and likewise prices and that infamous demand. One of the things he is particularly known for is his refutation of the theory of insufficient spending and thereby of demand, which he fragmented and derived from the fundamental law of capitalistic relations in reproduction. He likewise proved that the monetary sphere was also interpolated into all that and thereby influenced the proportions of cyclical instability. He argued that in the course of the process of conjuncture a disturbance inevitably comes about in the relations of distribution, and thereby also in the process of capital formation, and this has an impact on demand and its fragmentation, on the monetary-and-credit sphere, and indeed on the movement of prices. They rise in the phase of the upswing. First the prices of means of production and resources for reproduction, and then the prices of the means of consumption as well. In the phase of the collapse there is a turnaround, and prices drop. This zigzag process proceeded until a strong exogenous influence altered it.

The same thing—with certain essential differences in explaining the drive mechanism and with different terminology—was indeed confirmed by Keynes' considerations, and they led him into the area of interventionism so that the process of capital formation, with the help of exogenous influences, would be freed of the dangerous tendencies leading to disequilibrium. Exogenous

regulation was supposed, then, to influence the process of capital formation, and that means, stated most succinctly, the relationship between saving and consumption ( $D - S = pt$ ) and the relationship between saving and investment. This was supposed to overcome the investment waves which rise up one after the other and then break. So, that was the origin of this well-known anti-crisis, antidepressive and antideflationary active monetary policy and therapy, which has yielded the well-known results, but has likewise--after a certain period--caused new problems. Marginal producers, those, that is, on the margin with respect to their profitability, and then also those who are below the margin continue production--hold on and expand their activity, but at the same time they raise their prices to an ever higher level. Prices do not return to the previous level, but rise constantly. First, at a crawling, and then at a rolling pace.

Thus inflation has become a phenomenon which has affected even all the advanced countries in the world. In those areas it has taken the shape of a separate compact phenomenon which it was dangerous to touch lest one cause strong manifestations of recession or even crisis in the development of conjuncture.

Nevertheless, runaway inflation inevitably led to new thoughts and confusion. This has been manifested in the great number of theories; the one which has had the greatest play is that called the "monetaristic counterrevolution," which rightly spotted the defect in the Keynesian conception, which ultimately assumed that a steady rise of prices guaranteed a decline of wages and thereby offset the impossibility of parallelism between the general level of prices and the general level of wages, which inevitably would have had to occur through the nominal reduction of wages in the period of disjunction, which is so difficult to do. This Keynesian defect was not tactical, but strategic. From the standpoint of relations between labor and capital, the tactical approach was quite correct. Keynes' postulate: "It is worse to cause unemployment in an impoverished world than to cause inflation and disappoint the rentiers"—was alluring. It afforded prosperity to capital and employment to the workers. Forced saving and redistribution, ultimately at the expense of the workers, were concealed and less painful. Strategically, it was defective, since it allowed activities on the margin between profit and loss or even below that point to survive and expand their activities. Over the long run this had to fan the flames of inflation and, still more important, bring about the uncompetitiveness of those countries which stuck more firmly and over a longer period of time to Keynesian practice and economic policy. It is interesting that that practice was to be given all of its completeness, force and specific absolutization in the context of "state socialism," and it was quite thoroughly built into our system, although in a specific way.

The monetaristic counterrevolution, which did not begin with Friedman, although he is its patriarch today, quite rightly noted precisely those strategic shortcomings of state capitalism and state socialism. However harsh its criticism of state socialism, it nevertheless was not without basis, although as a doctrine it is conservative and antisocialist par excellence. Although extremely conservative, the monetaristic doctrine, it must be given

credit for this--by contrast with the most vulgar offshoots of the liberalistic theory of inflation such as the one about "wage inflation"--has managed to formulate this problem of wages more astutely. Its success in doing this can be attributed above all to the fact that it centered attention on the sector of production of capital "goods," which is so expansive and which was expanding powerfully, but had been neglected and pushed into the background--and only by that route did it reach the problem of expenditures, productivity and wages. This satisfied the most orthodox liberals and completely confused all the socialist schools, practically all of which had lost sight of the driving force of the accumulation of capital, yet they had not found any superior substitute, and so they fell into crisis. And that crisis of state capitalism and state socialism was a contributing factor to the fact that the myth of the "welfare economy" began in and of itself to collapse--except that both that complexity of the socialist school and also the shattering of that myth were influenced with particular strength by the gushing process of technological mutations and innovations, which caused a kind of panic in all strata of the advanced countries. The period of recessive purgation which began in 1973 was for all those reasons able to progress without great resistance in the advanced countries. The middle stratum, which had become swollen, was able to accommodate itself in that process, and the growing unemployment persisted without major social upheavals, although an exceeding price was paid by the unemployed, just as it was paid in far greater proportions by all the countries low down on the ladder of economic development.

Yet the lengthy sequence of recessions was for a long time explained in one way or another, one of the ways being that "the people are saving too much and spending too little"--is pure nonsense, although certain large central banks attempted to elaborate it as though they had forgotten that those savings were not in pouches carried by peasants, but in the banks, and that what was involved was the fundamental law of capital formation and development of conjuncture. It was only "Reaganism" and the doctrine known as "supply side economics" (although this is not any new theory, but only a resolute application of certain considerably older doctrines) managed to get free of that error and push through on the "thorny" task of encouraging capital. They had enough room for that--something which is forgotten--in their financial and technological supremacy, which for a time had been exceedingly underestimated.<sup>10</sup> Some of the room was created at the expense of the standard of living of the masses, and a portion at the expense of financial and technological domination and exploitation of other countries. Inflation was overcome on the basis of that room, and the terrain was prepared for a new economic expansion.

How stable that terrain is is a very ambiguous question when we bear in mind the ever greater buildup of the government budget deficit and the level of interest rates, while on the opposite side we still have the advantage which they [(?) the United States] had built up, the unquestioned technological supremacy, financial domination and a very penetrating and integrative force of American capital, along with the powerful nuclei of research within their military complex, as well as within the large firms--those true dinosaurs which have penetrated deeply into the economic tissue of all countries, including those treated as their competitors. This diminishes the uncertainty,

just as it is accentuated by the condition of the developing countries--all those large and small debtors which are becoming less and less able to import.

But the complicated topic area which has only been touched on here would require a more extensive elaboration which cannot be presented here, not even in its basic features, since a multitude of diverse relations are operative here. Let us take only two examples. First, what are American exports and what are its imports, when American multinationals are everywhere. Second, what are the prospects of the developing countries, whose debt must continue to rise and, according to certain forecasts, push up to a level of \$900 billion even by 1986, and that covers the debt of only 21 developing countries.

However, the first results are nevertheless in. They have strengthened the myth of Reaganism, of Thatcherism, and at the same time all the social welfare and ideological confrontations as well, which have carried over even to our own soil, although our case has been specific. Monetarism has penetrated our economic life, although it is altogether unsuitable for this context of ours. This assessment, and the virulent resistance to monetaristic practice in our context which is based on it, is not a reflection of any a priori intolerance by definition toward a therapy which has a conservative ideological background. The assessment and the resistance arise out of the belief that relations have come about in our economic structure and makeup which make it impossible for the arsenal of monetaristic measures to yield those results which they can yield in the United States or in several of the particularly advanced countries with large material and financial reserves and advanced market-financial relations and institutions.

By contrast with those countries, not only does our economy /lack that room/, but almost every one of its economic cells is overindebted. Besides, the interconnections are very weak, indeed even broken. /The integrative force of capital has not been replaced with any substitute at all./ The pooling of labor and capital, as a process, has found itself in a vacuum, since the material foundation for that process has been removed and domination and determination have remained outside the reach of the producers. In such a situation all the cells are now forced to display market behavior and everyone must meet all obligations on his own and make a constant reassessment, indexing, of all obligations and factors of production, except "manpower," so that the personal consumption of the workers will get what is left, if anything. In this process budgets are always drawn up in advance. Government expenditure, then, is somehow or other guaranteed, and that in some hierarchical order and sequence. The personal consumption of the workers can still battle only against social service expenditure. Consequently, for the present everything has come tumbling down onto the personal and social standard of living. Since that is impracticable, and the strong demonstration effect of social differences and comparisons with the pay of our workers abroad is still operative here, indexing, even with a lag, is penetrating even the zone of the standard of living. /All of that is pushing its way into prices./ But that is only a part. The /second breakthrough/ comes from the area of financial deficits, which have been increasing at a smart pace, and have to be covered. Now, if not with the help of prices. The /third inflationary

shock/ arrives by way of disrupted economic-financial connections--through prices and through foreign exchange. All of this accompanies the /fourth shock/, and that is the one that comes from the stagnation in production. The farmers' produce market has become independent and has its separate inflationary rhythm. It also stimulates the inflationary spiral which has affected the socialized sector, just as the latter stimulates the inflationary pace of the former.

And thus by applying some "universally valid" theoretical scheme we have fallen into galloping inflation, financial disorder, and disorder in production. All of this is being stoically borne, since there does after all exist a conviction that the way out will be found, as well as an awareness that the sacrifices are inevitable. That conviction and that awareness must not be disappointed. That is why there is a need for research, for reflection and also for debate.

### 3. The Inflationary Spiral--Its Old and New Generators

So, we have fallen into a strong inflationary spiral, and we have not spotted the way out of it, except in an almost comical scenario of apparitions, which even contains some tragicomic scenes. For 4 years now we have been in a lethargic stagnation. To be sure, beneath that stagnation many things have been happening which we have still not been managing to examine and evaluate. They also include some things which are constructive, but much of it has been adverse, at least of that which is visible.

For 3 years now we have not managed to attain the level of the real social product we had in 1980. Nor is it expected even in 1984. The personal and social standard of living, which in 1980 was 1,973 billion (expressed in 1982 prices) has fallen to 1,884. Government expenditure has fallen from 182 billion to 155, economic investments from 857 (in 1981) to 755.

The nominal social product, by contrast, has risen 2.6-fold (from 1,553 billion in 1980 to 4,000 billion in 1983). Material costs likewise. They have risen from 2,100 billion to 5,300. This nominal increase has speeded up during the stagnation. The discrepancy between the real and the nominal is growing--especially when we add in here that "underwater" part which consists of material costs.

From that same--in real terms--social product more and more has to be exported, but every part of the exports of that social product is increasingly expensive. How is it to be made as little expensive as possible? It is a simple matter, say some, "we cut back on consumption, since it is a cost." And to be sure, there is no cost that does not include it. What we can achieve in that way, at least as far as exports are concerned, can be achieved by devaluing the money. Everyone will receive a larger quantity of dinars for an unchanged quantity of dollars, marks.... In addition, the devalued money will in turn have an impact on consumption. /The devalued dinar can do what the indecisive government cannot do./ It will not just decimate it, it will decimillate it. And this is referred to as fitting consumption and costs into that true framework of what is realistic. "In that way we

will get in step with the world. Once it has been fitted into the cramped framework of what is realistic, everything will have to be tightened up, optimized and made more efficient."

/And thus we debate everything, we impose restrictions and discipline, we make adjustments, and we are sliding so fast with the dinar, and we are achieving very little./ Exports are not increasing, nor is the inflow from invisibles. The growth of exports to the "West" is the result of a decline to the "East." And in exports there has been an increase, indeed a considerable increase, in the export of raw materials and production supplies which we import.

--Everything related to all those measures, results and consequences ought to be discussed in more precise terms. /First/, in connection with the restrictions on consumption--however unavoidable they might have been, in some places exceedingly necessary, we still must ask how they are implemented and are they all indispensable? At present, the ceilings and limits are nothing more than Procrustean beds on which all are equally shortened. Some people just wink. At present those fare worse of whom it is said that their material position ought to be improved. Why is that the case? Mainly because those restrictions are being implemented blindly--by coercive inflationary redistribution, one which creates absolutely nothing, but merely breaks everything up into crumbs.

Associated labor has very little to do with everything that is happening here. It receives all this as "God's punishment." But prices are rising, the standard of living is dropping--yet not for absolutely everyone. For some it is in fact rising, and some people have such reserves that they can hold out for a long time. All of this is operating in a distorted and unfair way. So, however complicated it might be, something has to be done here and the standard of living based on work has to be protected. To go further, every one of all these categories of consumption is an integral part of life, not a mere statistical magnitude. Each is loaded with human flesh and blood. The squeeze must be a well-thought-out process which converts and transforms what is unproductive into what is productive and what is inefficient into what is efficient. Life is lived within those categories of consumption, and many things depend on this. All is interconnected. For example, many activities are directly related to investment projects, and all are indirectly related. And now, by contrast with our previous development, they have been brought to the edge. What we have said is not to deny that there is still much that is unwise within our investment front, but likewise it cannot be disputed that the brakes have been put on many things which are exceedingly necessary.

Where does this contradictoriness come from? It obviously lies in normativism and the alienation of that entire sphere from the producers. They have been squeezed. They cannot carry out even those most necessary investment projects which life is imposing upon them. Yet those which have sponsorship nevertheless do go forward, but at a murderously slow pace, so that that alone makes them hazardous. However, there are no solutions here until the basic defect in the system is realized and dealt with and until the process of consolidation of financial conditions and relations in our economy begins

on the basis of that change, until the economy itself takes over that as well as all other functions except those which must be performed by the government.<sup>11</sup>

--However, today there is no point in any discussion of consumption and inflation unless it is related to the question of the nature of this new, present, strong inflation in Yugoslavia. There are many facts to support the assertion that our inflation has changed greatly in its nature and as a phenomenon has become far more problematical and complicated.

There was a time when it could be described--speaking generally--as an inflation of excessive consumption, although its generator was quite specific and was to be found in the systemic gap between real and nominal accumulation, that is, in the system for the formation of money accumulation, that is, of resources for investments at a level considerably higher than was afforded by the actual accumulation. This "disproportion between nominal and real accumulation (as Professor Cirovic has quite correctly quoted my position<sup>12</sup>) is resulting in the formation of an inflationary gap, which is causing the inflationary spiral and other secondary effects of inflation." In that system for the formation of money accumulation, which I have been pointing to for more than a decade, the total amount of nominal money accumulation, and thereby the proportion of investments, is becoming a kind of independent variable which is affecting, /first/, all other categories of consumption (personal, social service and government), which, taken altogether, is causing a strong inflationary disturbance in relations between supply and demand. However, this fundamental gap in the system for the formation of accumulation is also bringing about a /second/ important inflationary disturbance, and that lies, first of all, in the nonoptimality of allocation of the money accumulation formed in that way, and then in the impossibility of carrying out all the investment projects financed in that way, since there is no room for this in the actual accumulation. The inflationary effects of this latter--in that system of financing--inflationary disturbance are what one might call catastrophic. They are expressed not only in investment nervousness, which causes uncertainty about the ultimate outcome of what has been started, but also in the frequent interruptions of financing and the blocking of accounts, which are an expression of the repeated collapses of the waves of investment financed in that way.

--If it can be said on the basis of all this that the source of demand inflation, but also the source of inefficiency and many other inflationary tensions, lies in the system for formation of money accumulation, /then paramount importance is attributed to precisely that kind of description of the monetary system/, and that the monetary system as the sum total of the extensive set of relations and mechanisms which must include not only the mechanism for issuing notes and the deposit-credit system of relations, but everything on which they are based, and that includes: a) the regime pertaining to money resources which is imposed on our organizations of associated labor; b) the technical mechanism for credit financing by the banks; c) the organization of payments traffic; d) the system for guaranteeing payment; and thereby also e) the impossibility of developing diversified money-financial relations and instruments which would correspond to more highly developed

forms of mutual commodity-money, production and investment ties in an economy organized on the basis of self-management. It is precisely that kind of monetary system, with almost completely frozen, rigid and inelastic, in a way even inoperative relations and instruments, has contributed to the banking and centralistic method of forming and using money accumulation, and it has not contributed to development of an economy organized on the basis of self-management. But to be able to perform that function, it had on the one hand to steadily strengthen all the restrictions built into the system in all its segments, and indeed even proscribe all those steadily growing relations of mutual debts and claims, and on the other steadily broaden the note-issue and credit-deposit abyss. Every such attempt to tighten it collided with the impossibility of maintaining in practice that rigid procedural arsenal of relations and instruments, and this was labeled as a lack of discipline and was expressed in illiquidity and the collapse of the unrestrained investment waves--and yet /the lessons were not taken/. They were not taken either during all of those earlier and frequent collapses and "stabilization" attempts which accompanied those collapses, nor even during this last collapse, which has been given a variety of names, but is generally described as the economic crisis.

--However, although the system for the formation of accumulation has not changed, under the pressure of the accumulated difficulties (which are a consequence of the way in which the inflationary gap has been concealed with the help of borrowing abroad and a strong inflow of foreign exchange remittances) the note-issue gap had to be narrowed. At the same time measures were undertaken to restrict consumption, investment spending first of all, and then other forms as well. /By that very fact the nature of our inflation began to undergo transformation./<sup>13</sup>

--That transformation, although it did not manage to eliminate all the symptoms of demand inflation, has nevertheless been taking place unrestrainably and has imprinted upon it dominant new earmarks and a new character. The /cost character of inflation/, which has been constantly pronounced in our economy--and generated by the insufficiency of supply relative to the final use of the social product and all those phenomena which have arisen out of inflationary financing of investment projects--/has been becoming ever more significant/. It has only been enveloped and supplemented by the remnants of inflationary demand which had not been annihilated, and that for two main reasons. The first lies in the large proportions of the accumulated purchasing power of a portion of the population. The second lies in the dropping off of imports. No impact was had on the former. What is more, that purchasing power has grown, so that additional problems have been created. Supposedly it was not possible to have an impact on the latter. That atmosphere of disproportionate supply relative to consumption, in the situation when exports were emphasized as the condition for survival, led to a situation in which the problem of consumption remained at the center of attention, while the evident problem of production costs was pushed into the background. Not only that, but the view was persisted in that even it would be mitigated to the extent that consumption was restricted, since it is the substance of cost. /Which is why the flywheel of restriction on consumption was set in motion. But so that it would yield the greatest possible results, a number

of measures were taken which one after another have operated counterproductively./ Four among them should be especially distinguished.

/The first is/ the unreasonably abrupt performance of the change of direction in monetary-and-credit policy. The switch was made from a monetary policy which passively adapted to the growth of the nominal social product and thereby facilitated the process of creation of the gap between nominal and real money accumulation to a markedly restrictive policy.

/The second is/ the attempt to make the transition from supposedly unrealistic interest rates to interest rates that would be as close as possible to real ones.

/The third is/ to make the exchange rate of the dinar seem realistic on the basis of some simplified sliding scheme. And /the fourth measure/ was carrying out a valuation of assets in the economy in real terms.

--All four of these measures might have every economic justification and they cannot be disputed in principle and theory--/but provided they have been sensibly calculated and carried out/. However, in our context not one of them could be decorated with constructive attributes. They have all had their faults, with far-reaching adverse effects on inflation, production, and indeed on exports and imports. The question arises--How do we account for these negative effects of measures which had their basis in principle and theory?<sup>14</sup>

The answer might be that their theoretical foundation was shaky, or that that foundation cannot be proclaimed to be universally valid, or, on the other hand, that that foundation of principle and theory was not properly applied to the specific--concrete reality. But I would not get into theorizing about that here. It will be more worthwhile to reduce the examination analytically to the framework of practice, which offers sufficient basis for reaching conclusions about economic policy. Whence, if one wishes, conclusions might also be derived both about the value of the theoretical foundation and about the quality of its application. In that sense there have already been quite a few elaborations pointing to the alarming repercussions of the monetary-and-credit policy that has been applied, the policy concerning the rate of exchange of the dinar, and interest rate policy. To be sure, the realizations have not yet matured to the point of allowing for a new alternative articulation and thereby for a revision of the policy that has been applied. What is more, there are still a broad group of economists and indeed even politicians who with certain reservations--or unreservedly--support this conception. What is more, some are calling for it to be radicalized. This demand is wrapped up in the alluring envelope of the plea for realistic economic relations which would make it impossible for anyone to create inflationary income and accordingly consumption at someone else's expense. However, there is no dispute whatsoever along those lines. There are few who can come out against realistic economic relations and criteria. In that sense, at least in principle, all are appealing for a realistic rate of exchange, for a realistic rate of interest and for realistic compensation of costs and for a moderate monetary policy. But that position in principle

does not mean that no reasons exist for opposing everything that is passed off under the name of what is realistic but is not and is therefore counter-productive. It is too bad, but it is a fact, that up to this very day we are still at that level of the dispute, and still far from the finesse in economic policy to implement those criteria. Here again the main problem lies in the major simplifications of theory, doctrinaire attitudes and schematism. A debate with documented arguments is necessary for all these reasons. The dilemmas are very pronounced. They are manifested in the muddling of economic policy and the economy's state of confusion. But let us take things in order.

/First, about restrictive monetary policy./--In the period 1980-1983, while the nominal social product rose 2.6-fold, money in circulation rose only 1.9-fold, and the money supply of OUR's [organization of associated labor] 1.7-fold. The coefficient of the adequacy of the supply of money to the economy--measured by the ratio Dp:NM--therefore fell so much that it had to cause a problem of nonpayment, with a number of consequences for the normal course of reproduction. This accentuated the constantly acute problem of monetization (sales). The unreal--iron-bound limits--proved to be ineffective, or, better stated, harmful. OUR's [basic organization of associated labor] in the economy were less and less in a position to meet their mutual obligations and likewise obligations to banks. This negative development was additionally affected by unrealistic planning. The planned difference in growth rates between the nominal social product and the money supply diverged more and more from the actual one. In 1980 and 1981 that difference was planned at -2, but actually it was -10 (1980) and -14 in 1981. In 1983 it was planned at -9.5, but actually it was -18.5. All of this happened at a time when the problem of purchases was becoming more acute, and that tended to augment inventories of all kinds except inventories in the distribution sector. It turned out that the monetary restrictions were utterly feeble, and the threats of penalties of any kind were inferior compared to the strength of the efforts to survive. Here again economic necessity proved itself to be superior to brutal and schematized exogenous regulation. The economy sought its way out in mutual relations, even though they were exceedingly disrupted.<sup>15</sup> Only that kind of obstinacy can explain why our economy did not fall into a state of deep depression. However, the price of that had to be paid, and some price it was. The pace of production and the turnover of capital were slowed down. Unit costs, along with given fixed costs and the higher variable costs, had to rise. Since that was not an isolated case, but almost the general characteristic of the process, all of this had to be expressed in a general escalation of producers' prices, and that was passed on further. Whoever was unable to do this found a legal way out in the system of "dual prices," which by force of circumstances became an integral part of our reality. That is why after a certain time they lost the attribute of "blackmail." More and more they were acknowledged to be an expression of economic logic, of economic laws.

How great was the role of the restrictive monetary policy here and how great the role of objective material and structural imbalances is not possible to distinguish. However, even when the great force of the latter is honored, it cannot be denied that all of this was also influenced by the excessively

narrow monetary framework and everything that had to be done to jump over it. Since that was not possible legally, it was done "illegally." The economy intensified the fabrication of its separate money, although that was proscribed.

That proscription /was carried out on the basis of the old government-monetaristic dogma which had become deeply entrenched with us and had grown to be a kind of theoretical concept/, on the basis of which there in fact occurred a gap between the process of the creation of value and the process of the issuing of money. The old dogma, firmly incorporated into the system, made it impossible for the process of issuing money to be organically linked to the process of the creation of value and thereby to increase [?] the gap between them, and it was then filled exclusively--if this is looked at from the standpoint of legality--with bank credits. Mutual commodity-money relations arising out of the linkage of the economic cells pertaining to production, trade and investments, were thereby constantly displaced, and the space which in the course of time had nevertheless to be given to them was too narrow and rigid. Everything that was in that space /was anesthetized and incapacitated for circulation/.

The elaboration of the Commission for the Monetary System of the federal social councils was quite explicit concerning this set of problems. First of all, it insisted "that the process of the creation of money--as an expression of the creation of value and the issuing of money in the flows of reproduction--be examined integrally, beginning with organizations of associated labor, up through commercial banking, to the National Bank of Yugoslavia--also including, then, the substitutes of money which are circulating or ought to be circulating among organizations of associated labor and which supplement the structure of liquidity." A plea was issued in that connection for "stimulation and expansion of the horizontal circulation of resources and the use of securities in mutual commodity-money transactions, whose purpose would be to act toward resolving and direct settlement of a sizable portion of debtor-creditor relations without the use of deposit money, and would thereby diminish the economy's dependence upon bank credits."

Since the money resources of the OUR were disintegrated into 23 different categories, the old demand for integration of those resources was repeated, which would have facilitated a higher degree of self-financing, which, assuming "development of current account relations and organized trade in receivables (securities), clearing, or some form of interbank conversion of those receivables, or a combination of multiple endorsement with permanent clearing--would reduce not only debtor-creditor relations, but also the need for bank money, deposit money...."

/Instead, then, of a proscription of mutual credit financing/ which is becoming ever more aggressive, /the commission advocated/: (a) a more appropriate monetary policy which would not be augmenting the volume of mutual credit financing, which was figuring as a form of compensation and neutralization of the effects of the excessively restrictive monetary policy; (b) a tightening of penalties for those cases in which mutual credit financing was an expression of insolvency and of failures in business policy and investment policy;

(c) stimulation of that portion of mutual credit financing which objectively arose out of regular production-distribution relations in the economy and had the features of normal horizontal circulation; and (d) that the banks, in order to link that circulation to other monetary aggregates and flows, improve their own activity in the handling of securities which are an expression of regular production-distribution relations in the economy (a code and censorship of bills of exchange, ongoing bank clearing of those securities, all the way to their being rediscounted through the system of commercial banks).

Under /present conditions/ of the profound disturbances in financial relations in the economy, when all reserves have been exhausted, and the economy and the banks are in a pronounced state of illiquidity--/the process of financial consolidation is impossible unless it begins precisely with these economic-financial interconnections and unless monetary policy is postulated more appropriately/.

However, this process of changes which cuts into the regime concerning resources, into the technical procedures of payment and settlement and into the system for guaranteeing payments--and which has far-reaching consequences for the monetary system and the credit system--would be able to relieve the burden of the sphere of working capital, which is today unwisely overinvested, considerably speed up the circulation of money and diminish our immense "faux frais," and that reduction would signify a contribution to developing a self-management system for financing reproduction--a blow against the system in which the monetary sphere is alienated from the producers.

Nevertheless, aside from assessments of this kind, there are also others which hold stubbornly to state-monetary dogmas, and some of them are cleverly wrapped in a coating of some kind of economically logical self-management banking, which is a pure illusion and a mind of mechanism--our own specific one--for alienation of the monetary sphere.

To some people any fabrication of money substitutes seems like pure usurpation, although it is paid for in no uncertain terms with the labor of the producers that is contained in those masses of goods which have become hung up in mutual debts and claims and could not break out of the cocoon to become that notorious legal deposit N', which is the precondition for the new production cycle. That is why that N' had to be continually, at least partially, replaced with new credits, and given the restrictive monetary-and-credit policy, with new debts and claims which also contained labor of producers for which the payment and rate of payment was less and less.<sup>16</sup>

However, this process of substitution of the official money constantly came up against the barrier of that ultimately inevitable necessary quantity of money in circulation, and for that reason, as has already been stated, the process of production and distribution had to take place with difficulties and interruptions and had to become ever more expensive, and that in proportion to the restrictions and society's inability to prevent the steady siphoning off of transaction money into money capital which inflated investments and the growth of the nominal social product. Other price rises were then built up upon that one. It came about first of all from the higher

"price" of that legal money which our economy obtained by means of bank credit. That is why something also needs to be said about that.

/Second, this is the notorious and debatable question of interest/ which the thunderous majority has seen as an important link in the stabilization chain. /That view/ of the majority arises from the fact that the rate of inflation is higher than the nominal interest rate. From that fact, which is only partially true, all conclusions are drawn, above all those concerning the propensity to save, the propensity to consume, the propensity to invest, and the propensity to advance money and money capital. The inflationary process and everything that gives it a firm foundation--nonoptimality and inefficiency--arise, according to that assessment, out of that set of propensities.

It is painful for me to write about this topic again, since the power of appearance is so strong that it all seems like a futile task.

Who is able to break down the firm barricades of the old beliefs, including the one to the effect "The one who works will have everything, but the one who saves will have still more."

How can one not note that the demand for money is not regulated exclusively by the rate of interest, but--insofar as the structure and transferability of various forms of liquidity is given--that demand is regulated by the needs of business life and the sum total of commodity-money transactions which must be conducted by the participants in reproduction? I do not know. However, on the basis of the view that the interest rate is a decisive parameter people preach, regardless of our reality, that we need to adopt a realistic rate of interest, /and by that they mean a rate of interest that is higher than the rate of inflation/, which will establish order and will thereby even eliminate the need for monetary limits to be set. But what it cannot do will be done by the realistic rate of exchange of the dinar, which we will be discussing separately here.

Transaction demand and liquidity demand, just like the demand for money capital, are in this scheme a function of the relation between prices and the rate of interest ( $M_d = f[P/I]$ ). The deduction on that basis is this: any rise in the real rate of interest tends to increase savings and acts as a disincentive on investment. /But that is accurate only in an unrealistically simplified model/ in which many essential relations have been neglected. First of all the size of money income and the real determinants of its distribution into saving and consumption--and especially important in our context--everything that characterizes the process of the formation of accumulation and the way in which reproduction is financed. /It equally neglects how the horrifying total amount of credit which is pressing upon our economy arose out of that system for the formation of accumulation./ Moreover, it neglects /that that total amount of credit/ (which has pushed up to the astronomical amount of 2,658 billion new dinars) /is not an expression of a transfer of past labor at all/, but an expression of a systemic deformation and of that systematically conducted extraction of money accumulation from the producers, which we have already been talking about here.

Precisely because of the unpermitted simplification of essential relations even what was especially emphasized by the "Anti-Inflation Program" escaped awareness, and that is that--in our structure of financial relations--a rise of the rate of interest will figure as an indigestible cost.

Although our rate of interest is still far from that "realistic rate," in 1983 it had a markedly inflationary effect, and yet contributed nothing constructive--/but not because it was not nominally higher than the rate of inflation/, but because in the Yugoslav economy it--in real terms--was considerably higher than the rate of inflation when all relations are included in the account, beginning with those which are related to the technical procedure of credit financing, the system governing resources, and the system for guaranteeing payment. It is precisely on the basis of that ignorance of the complicated structure of our financial relations, which are such as to increase the necessary quantity of money and credit, that the dogma of the realistic rate of interest might be carried over to our soil as a simple derivation from the rate of inflation.

In the rate of inflation, which in 1983 has been estimated at nearly 60 percent, the rise of the rate of interest contributed 7 of its index points, that is, it represented 12 percent of the actual inflation. No financial order whatsoever was achieved thereby. On the contrary, the financial disorder was intensified. The sum total of unpaid credits is all the greater, and within that the sum total of unpaid interest is all the greater. In all of this the growth of rates of interest at which money is borrowed has increased the costs of sources of resources in which individuals have a large share.<sup>17</sup> Let us just ask what would have happened if the rate of interest had reached 60 percent!

The aspiration to realistic rates of interest (if we neglect that specious line of argument which explains this in terms of the need to pass on past labor sublimated in money accumulation among the agents of reproduction) is explained in terms of protection of favors. There is something here which is accurate, but much that is the result of a failure to understand not only the motives of that savings, but also its structure, but it is precisely those motives and the structure of that savings that determine the attitude which ought to be taken toward it.

The major part of our dinar savings is a manipulative temporary surplus which does not in fact even qualify as true savings, though something does precipitate out of it as savings. This is mainly money in circulation which is only passing through savings accounts, current accounts and checking accounts. Only a portion of that total recorded as individual savings is true savings--mainly that which is earmarked for a special purpose.

While the former--just like money in the pocket--should not be honored, there is a need to stimulate the latter. However, the question here is whether this must be honored with realistic rates of interest which are compensated at the expense of the economy as a whole or at the expense of only those economic entities which have an interest in that savings. /In that sense contractual forms of savings might be one of the solutions./ Such a form might

guarantee a constant successive revaluation of the principle by means of deflation of the purchase price of that product for which the saving was intended. The "cost" of the revaluation would then be borne by that economic entity which has received that savings deposit, except that it would not even feel that "cost," since the deposit, as soon as received, would be put to productive use. /The anonymous character of the cost of interest would in this way be decanted into the productive force of a known self-managing producer/, who might in response grant credit to the saver to cover that difference between the revaluated deposit and the price of the product for which the saving has been earmarked--except that that credit portion would be constantly revalued--unless society judges that social welfare considerations are also essential here, and for that reason it decides to give that credit preferential treatment. In that contractual relation all accounts are straight, and a possible intervention of society into that relation cannot cause deformations--enrichment of an individual at the expense of the economy and thereby of society as a whole. The contractual form might be a method of stimulating special-purpose savings, a stimulus to housing construction and to the production of durable consumer goods.

But that contractual form is only one of the possibilities--mentioned here only in passing as an example. The socialist production relation also offers other possibilities, and they can be realized in a context of common interest. Optional contributions are one of the forms of that common interest. Income from interest and the existence of rentiers are displaced and recast in the broader interests of development and other interests of individuals. The question of proportion in development of these forms is a complicated one and it also depends on the social assessment of the justifiability of each of those possible forms. One of the pieces of evidence as to the complexity of the problem is the question of whether investments by individuals to "purchase" a job would be included here.

However, all of this, which has only been indicated in passing, concerning individual savings and the role of the rate of interest, has been presented because this is largely the basis of the line of argument about the realistic rate of interest which would be derived from the rate of inflation. After all that has already been written in the article "Interest and Saving," I would not here enter once again into the question of the relationship of income and the prospects of its growth to the size of savings, nor indeed into proving that savers adapt more easily than does economic policy to the instability of the currency and the dogmatism of monetarism--which fail to see not only the shock of inflation and the social deformations which arise out of the ideology of the rentier, but also the relationships in the financial structure of our economy--I would only mention here what is most important to credit relations and interest policy, and that is this:

/first/, that the final debtor-creditor relations between our banks and OUR's--and that means the cumulative amounts of bank credits--do not reflect the real, but fabricated relations of debtor-creditor polarization;

/second/, that that polarization has been instituted on the basis of multiplication of credit needs--primarily in that high financial investments have been imposed on the economy;<sup>18</sup>

/third/, that the principle of "gross business credits" has been steadily augmenting the total amount of credit considerably beyond what has been actually used;

/fourth/, that that same system of credit financing has been augmenting the sum total of repayments, including interest, and that thereby the rate of interest--nominally lower than the rate of inflation--has been turned into a rate of interest that is far higher than the rate of inflation;

/fifth/, that our system has anesthetized the circulation of mutual debts and claims and has not developed a single other form of financial mediation and monetization of claims except expensive bank credit.

It is as though our great theorists of the system did not know any of all this. These are castles in Spain for the politicians. Which is why it did not get to the IMF, except in one conversation with executive director Polak, who asked in disbelief: "Is it possible that this kind of credit practice is in effect in Yugoslavia?"<sup>19</sup> Unfortunately, /that practice is already our long-standing reality/. It has fabricated anonymous /banking capital, and the economy has been impoverished. With the help of it our bank balances have been swelled up--that is our fictitious wealth and distribution of money capital/. That has led us toward the abyss.

The decline of investment efficiency, that is, the rise of the capital coefficient, is only an expression of that system, and that expression has been exceedingly expensive and carcinogenic--it has metastasized in the disproportionate consumption of all kinds. Much of the diverse sterility flourished on that "abundance," as did the foreign indebtedness which sanctioned and "rescued" it all. However, on that same systemic basis--even at that unhappy, uneconomic and "unrealistic" rate of interest--/costs rose for the monetarily reinvested sphere of working capital/, so that they also augmented our total production costs. Thus they also speeded up our movement toward the abyss.

A rise of the rate of interest could not speed up that movement toward the abyss any more, since we are already over the chasm, but it could powerfully act toward a neutralization of our efforts to back off from that chasm unless a great many things are changed in that segment of the system. In its linkage with the other generators of inflation the "realistic" rate of interest would complicate and augment all of our difficulties and problems. For the present, then, enough about that unfortunate rate of interest.

/Third, a word or two about revaluation./--We will begin with the demand for continual revaluation of working capital.

This demand for revaluation of working capital neglects a great many things in our context. First of all it neglects the fact that working capital is an almost limitless mixture of money and various goods, goods moreover which are to be found scattered in all phases and sequences of the process of production and distribution, and they have been cast with a highly differing share of current labor and past labor. It can be said therefore that this demand neglects among other things the complexity of this task and that that task

would require that we settle new swarms of bureaucrats in all OUR's, and in the Social Accounting Service numerous controllers, and new production costs would be created thereby. "The grass will eat up the cow." And we will have to do all that solely so that the workers do not eat up some sort of inflationary income. As though there did not exist any sort of other simpler methods whatsoever for establishing that inflationary income in those cases where it actually occurs, and there are not really so many of them. The miserable remainder of income, and also its distribution into those two basic parts, shows that the producers are not eating up the inflationary income, but that /cost inflation and the system for financing reproduction are gobbling up their income like a monster/.

The question is whether today, in the period of escalation of costs and the declining efficiency of the use of passed-on and live labor, it is at all possible in one direction, solely upward, to carry out any sort of revaluation. That kind of one-sided revaluation would be automatically halted in a situation like ours anywhere in the world. Wherever it is possible to establish the market value of property, the revaluation would be negative, until efficiency changes for the better. Yet, what can you do when someone wants to make the situation impossible--to fan the flames of a still stronger inflation instead of acknowledging that the "Yugoslav oil pipeline" must now reduce its value, and some things must be reduced to nothing. That is the case with the Obrovac Alumina Plant; we will not enter here into the question of how it came about (but it would be worthwhile to investigate that from the beginning, including "Jugal," the guaranty from the SFRY Assembly of the credit from the DBR [further expansion unknown] in 1970, the laying of the cornerstone, the way it was built, the expert evaluation of the bauxite deposits, the suspension of financing for operations to expand the mine, all the way to the ceremonies to "put it in operation." The people ought to know all of this, not only concerning "Obrovac," the oil pipeline, the nuclear power plant, Smederevo, FENI, Lendava.... The prestige of the leadership, I am convinced, would be enhanced thereby, not diminished.).

Leaving this topic unfinished, as I am aware of doing, we can finally pass on to the question of the policy concerning the rate of foreign exchange.

#### 4. The Tragcomic Construction of the Policy Concerning the Rate of Foreign Exchange<sup>20</sup>

An active policy of a realistic rate of exchange of the dinar was given our formal acceptance long ago. However, arguments have always cropped up over that policy. The years 1970 and 1971 are the best evidence of that. There are many people who are well informed about how the dinar was revalued in 1973 under pressures, and they know whose pressures, and why it was overvalued for a long time. Certain lessons have finally been grasped. Insistence on a realistic rate of exchange has been accepted, but at the same time it has been accepted that an active exchange rate policy must be conducted. The latter meant that it could depart up or down from some realistic level established by estimation, but that an economic policy would be conducted that would protect that rate of exchange. As for the view that we even need--under the adverse conditions of world conjuncture and a strengthening

of protectionism, and because of the inevitability of righting our balance of payments--a certain degree of real depreciation of the dinar, there should also be no arguments.<sup>21</sup> However, an argument has arisen over the issue of where that optimum level is for the rate of foreign exchange in an economy which appears on the world market as buyer and seller of an extremely large number of products, which is partly the result of the unsystematic development policy, but also of the regime that makes imports contingent upon exports, which has displaced the orientation toward the most optimal large export programs. Related to this, the emphasis in policy has been shifted to a rate of foreign exchange which would act as an incentive for exports, and almost everything else has been neglected, which in 1983 led us to an effective depreciation of the dinar which was almost twice as great as the difference between domestic and foreign inflation.

That kind of exchange rate policy had to have horrifying adverse repercussions for the level of domestic prices, and the indirect effects were considerably greater than those direct ones which depend on the level of the depreciation and the share of imports from the social product.

Some people, for instance the Institute for Economic Diagnosis and Forecasting in Maribor, estimate that that policy increased the rate of our inflation in 1983 by about 27 index points, which represents 45 percent of the inflation that occurred, while it also yielded a negative result in terms of foreign exchange. A study prepared by the National Bank of Yugoslavia entitled "Advantages and Shortcomings of the Present Model of the Active Policy of a Realistic Rate of Exchange of the Dinar ..." (Belgrade, 7 November 1983) also points to the adverse results of that policy in terms of costs and foreign exchange.

There may be disputes about everything related to the proportions of the adverse effects of the policy of the sliding dinar that has been applied, but only up to the moment when the accounts were closed and when afterward it became unambiguously clear that that policy arose out of the "most extreme liberalistic conception based on the monetaristic strategy which demands absolute liberalization of the basic mechanism--especially commodity prices, interest rates and the rate of foreign exchange."<sup>22</sup>

Even though the creators of that Frankenstein in the world of economic policy and political economy have themselves become frightened of it, and have begun to back off to some extent: for example, from the liberalization of prices and the revaluation of fixed capital, still--as the substance of the conception--they have retained the monetaristic heedlessness toward the real state of relations in Yugoslav society and toward its socioeconomic ideological foundation.

Now, this assessment does not arise out of some purist and a priori attitude toward monetarism, but toward an oversimplified and dangerous specific construction of it which jeopardized fulfillment of the Long-Range Economic Stabilization Program in all its parts. The specific construction revealed its liberalistic extremism and its deceptive simplicity. Many economists in the West have also indicated that deceptive simplicity. Among them we might

single out the assessment of Lord N. Kaldor, the well-known English economist and Labor member of the Upper House of the English Parliament, well known for his criticism of M. Thatcher's monetarism, whom I will paraphrase: The deceptive simplicity of monetarism is only a smokescreen which has concealed the strategy of guaranteeing stronger capital formation through powerful pressure on employment and wages.

Lord Kaldor is not a left-wing dogmatist. Perhaps he is not even altogether right, since Great Britain is not Yugoslavia, so that there is some room even for monetaristic pressure. (Large world capital which has rushed into the North Sea and managed with the high petroleum prices to achieve profitability from that expensive production<sup>23</sup> and in addition turn Great Britain from an importer to an exporter of petroleum, represents one such space, just as the immense withdrawal of funds from the IMF was at one time.)

In Yugoslavia that kind of strategy does not guarantee even that "stronger capital formation," but only impoverishment, as was incidentally written in THE WALL STREET JOURNAL on 12 October 1983. To leave off appealing to the authority of M. Cirovic, N. Kaldor and THE WALL STREET JOURNAL, that is a nonsensical policy which had to bring about an authentic economic and social drama with untold consequences for the social relations of production and indeed for the existence of this society, but it was prevented by a broad block of producers who took up the slack. But even that very stalwart block was unable to prevent the deepening of the financial crisis, the inflationary eruption and the almost complete disintegration of the patched-up ruins of the foreign exchange system--/and all of this is becoming an ever greater problem of ours, above all because it is disintegrating the economy/. And disintegrated production is in and of itself inefficient and expensive.

That "deceptive simplicity," which arises out of the most vulgar theory of demand, is being conducted with the conventional murderous sets of instruments of monetaristically conceived restrictions (a realistic high rate of interest, credit ceilings and limits set low), which become still more murderous when one adds to them the "deceptive simplicity" concerning the formation and level of the real rate of foreign exchange, which--camouflaged by the great goal of income stimulation of exports and restructuring of the economy--leads to destruction, since that economic policy practice introduces into our life the economic monster and sets it free. Although that monster is given the handsome title of the economic laws and economic coercion we need, it de facto does not signify any liberation of "A. Smith's invisible hand," but, in the judgment of J. Stanovnik, a steel fist, and I would say a stonecrusher.

So that this blackest judgment is understood as fully as possible, I will quote an elucidation of that therapeutic standard and economic policy, one which I found in a document prepared in support of the draft of the Law on Foreign Exchange Transactions, one which appeals for establishment of the foreign exchange market.

"In the present phase the rights to purchase foreign exchange must be restricted. That is, the relevant premises for the conception of a completely free foreign exchange market would be the following:

"--strictly limited bank lendings;

"--realistic rates of interest which eliminate the motive of gain based on differences in rates of exchange if one is late in collective for exports (within that framework the credits whereby dinars are furnished to purchase foreign currencies must be more expensive than importing financed with commodity credit);

"--an active policy of the rate of exchange;

"--prevention of 'emission' through mutual indebtedness (institution of absolute payment discipline);

"--elimination of a portion of demand through fiscal policy.

"Under those assumptions the economy would not be able to hold inventories of the size they have held up to now, since the sources of working capital would be reduced, and those available would become expensive. If we add to this that imports themselves would be more expensive because of the policy of the realistic rate of exchange--/whose real margin would be determined by the relationship between supply and demand on the domestic market--a reduced relative demand for foreign exchange could be anticipated with certainty/.

"On the other hand, a certain reduction in absolute demand can also be realistically anticipated--because of low production. Whether we like it or not, /strict enforcement of measures in the area of domestic demand and liquidity will force domestic liquidity to become a very strong factor restricting production from the possibility of obtaining imported inputs in physical terms/. (However difficult that might have seemed, one must bear in mind the stubborn fact that the structural adaptation of the economy actually signifies a closing of some plants and an opening of others.) This must slow down production temporarily.\* The anticipated starting up of new heavy facilities could be an additional factor tending to reduce the demand for expensive foreign exchange. In earlier years the opening up of these capacities would have represented only a part of the growth of production. Under conditions where total production is dropping or is close to stagnation capacities of this kind would unconditionally have to result in a reduction of the dependence on imports per unit output. An important additional prerequisite might also be controlling personal demand through taxes and reorienting that demand toward deferred consumption and consumption with a smaller share of import content (housing policy and the like).

"Of course, one more fundamental prerequisite is necessary to implement this conception (one which is also essential to every other conception which is aimed at leading us toward broader inclusion in the international division of

\* "A conception which comes down to our having to increase production primarily by removing the causes which have led to reduced utilization of capacity, in which it is most important to improve the supply of raw materials, would actually result in reestablishment of the previous structural relations."

labor). That is, either to make it possible for the market to eliminate the poor and incompetent organizations (which among other things are demanding foreign exchange) or there will still be a need for perpetual administrative arbitration in the economy.

"/If, then, all these prerequisites are brought about, a new equilibrium level would be reestablished in our economy at which production would no longer be restricted (solely) by the supply of foreign exchange, but rather by the supply of money (and its price) as a whole. It is certain that under such conditions it would be inaccurate to assume any unlimited demand for foreign exchange or that demand would exceed the supply by several billion dollars if the buying and selling of foreign exchange on the foreign exchange market were free."<sup>24</sup> (Italics mine--I. P.)

In spite of certain reservations related to the transitional period, that justification has clearly shown what sort of "invisible hand" is involved and how an iron rock crusher looms up behind it. We must ask in this connection whether restrictions to about 1,000 billion dinars of net personal incomes in the economy and about 600 billion set aside for government and social service expenditure can make room for everything that is happening: (a) in the sphere of business costs of the economy, which can be estimated (and the estimate was made half a year ago, that is, without examination of year-end statements) at more than 10,000 billion and (b) in all of that immense wealth that has been piled up and which is expressed in inestimable amounts and which are growing exponentially--if for no other reason, then because of differences in rates of exchange for which a solution cannot be found, since their foundation lies in what has already been spent, they are an obligation--a debt for the economy, but potential purchasing power for individuals. Although the rate of exchange of the dinar has been blocked for the last few months, those differences in rates of exchange are estimated at 1,400 billion. Neglecting the rest of the wealth that has been piled up by individuals—for example, in foreign exchange which is in drawers ... in this connection /the question must be asked—what is the possible impact of the respective blows on that total amount of 1,600 billion, which represents the sum total of net personal incomes, social service expenditure and government expenditure, as compared to those 1,400 billion represented by differences in rates of exchange/, which ought to grow--according to the policy of the rate of exchange of the dinar preached in the "justification"--to at least 2,500 billion by the end of 1984, without even including here the interest on the foreign exchange accounts of individuals, which can be spent without worry, since the principal is growing anyway. And /that itself is sufficient to offset all the restrictions/.

It is superfluous to make the case as to what those exponentially growing "negative differences in the rate of exchange" signify for debtors and for Yugoslavia, which must pay at least the interest. Not to mention what is signified by the force of anticipation which arises from the assurance that in 1984 the dinar will again be worth less, just as happened in 1983.

However, the mere indication of these facts are interpreted by the advocates of the rapidly sliding rate of exchange of the dinar as a means of income

stimulation of exports as an ideological salto mortale and a denial of the importance of exports on the part of those who have been advocating a realistic rate of exchange. In this connection, then, let us put the question of /what the alternative is/.

### 5. The Alternative

The alternative lies in changing and rejecting the policy of the rapid and steady--passive and exaggerated--slide of the dinar and in bringing it within the limits of that necessary and realistically estimated shift, whereupon the rate of exchange would be resolutely defended with numerous measures that would stand in the way of all the sources of inflation that lie in costs, but would not hamper the economy, but would actually help it to consolidate and homogenize itself.

It is possible to draft and carry out an effective program of measures and actions in that direction, but this is impossible on the basis of monetaristic brutality. Only by rejecting that annihilating conception is it possible to work out an effective alternative.

The basic content of that alternative would be as follows:

/First/, on the basis of an analysis of all cost relations one after another to take all possible steps to reduce them or at least significantly slow down the rate of their growth. Also included here would be measures to redistribute them.<sup>25</sup>

/Second/, these are measures which homogenize the Yugoslav economy and thereby make it possible for it to be more efficient and more capable of exporting. This set of measures would also include all those measures which on the basis of the homogenization of producers would contribute to an optimum export orientation and strategy (and the same for imports), and which is now obviously dissipated and unwise.

/Third/, these are measures which strengthen the awareness of the interdependence of producers in all their relations: in production and distribution, in finance and in foreign exchange. That set of measures includes drafting a financial rescue program for every cell, provided the problems and possibilities are fully clarified and--in the interconnections of producers and in their banks and sociopolitical communities--the optimum solution is found, which might even be liquidation with resorption of those parts which can be productively integrated into those healthy nuclei, of which there are a good number.

/Fourth/, this includes everything that has been said in connection with monetary policy, the situation in the sphere of working capital and the difficulties and indeed even costs which arise out of the excessively restrictive monetary policy, but also out of the relations in the system for financing reproduction.

/Many other measures are also solidified in the content of the alternative./ We would only mention here /alteration of the methodology for computing the realistic rate of exchange of the dinar/ which would be made subordinate to the most progressive part of the economy, to large export programs, and which would be supplemented by restructured export incentives. There should also be reflection about whether the system of constant adaptation ought to be changed into a system of mild devaluations as rare as possible. Also included here would be all those measures aimed at higher forms of economic cooperation with foreign countries, and that both with the advanced countries and also with the underdeveloped countries and the countries of CEMA. Certainly this also includes a more precise definition of our attitude toward the foreign exchange accounts of individuals, with a stimulative effort to attract and put to productive use the foreign currencies of Yugoslavs employed abroad as well as the knowledge they have gained. All of these "gains," changes and rumors over this question should be terminated and a clear policy defined which must among other things cut off all the channels and flows of private clearing of foreign exchange and the gray and black foreign exchange markets.

Tearing down the enormous social overhead should be conceived and begun at all levels and in all structures. The swelling of social inequities, except for differences which are the result of work, should be prevented with tax policy and a policy of incentives to reward all achievers, provide that even those, although they contribute to society both in their production and morally, also participate in the costs of our consolidation. Income from interest and interest rate differentials must not flow into the pockets of individuals. In the socialized sector those differentials must become a part of the development potential.

In advocating here the lowest possible rate of depreciation of the dinar, we only appear to be in conflict with the realistic rate of exchange. However, when it is borne in mind that /depreciation is a process which feeds itself and is constantly perpetuated/, since it has a strong impact on costs and the rate of inflation, for that reason the need for a new depreciation is automatically and constantly perpetuated--only then can one draw a conclusion about the far-reaching importance of efforts to tame that process and reduce it to a minimum.

Although only a part of the complicated task of working out an alternative has been indicated in these suggestions, I assume that even this is sufficient for rendering a judgment about the practice and the alternative. Nevertheless, something more must be added here, and that is that no way can be found out of the inflationary spiral with the help of the monetaristic arsenal which has been described and which has been best explained by Professor Cirovic. In that sense his views and what has been set forth in the Anti-Inflation Program constitute a valuable basis for working out an alternative. Any other approach leads us into an agonized reassessment of the system instead of on the path of correcting some of its mechanisms, relations and instruments.

The /financial rescue processes, along with the measures of financial consolidation/, which have been stressed in the material of the Commission for the Monetary System, and also the /consolidation of the utterly destroyed relations in the foreign exchange sphere/, which are best and most clearly indicated by all of the monkey business over the foreign exchange organization of the economy--/are two essential links in the stabilization/. On the basis of those consolidation undertakings and along with abandonment of the immoderate instruments and parameters, it is possible to put the question of responsibility more sharply and initiate processes of homogenization and of pooling labor and capital on projects which will contribute to restructuring the economy, to the division of labor, and to specialization, and to increase the individual and overall efficiency of our economy. Along with the other things mentioned, this makes it possible to reduce the cost shocks and put order in price relations. However, it is precisely over the development of these essential links in the stabilization that there are differences. /That is why there is more and more thought about how to push through the monetaristic instruments and discipline the economy rather than about how to carry out consolidation./ Strong criticism of the fundamental postulates of the system is flourishing in that vacuum.

The reform of price relations is an especially important link in the stabilization. However, this cannot be done exogenously with imposed changes in price parities. A real price reform can come only from a change of relations in our economy. In that context all thoughts about changing those relations and thereby about a price reform are unfeasible unless we work out the alternative mentioned to the monetaristic conception, which leads to financial disorder--instead of order--to a perpetuation of inflationary costs and illiquidity, and sets the economy at odds--thereby holding back the efficient turnover of resources and utilization of capacity.

We are referring to the most important questions and relations, but /the answers have not been given, except in a practice which has played around with the monetaristic conception/, and has brought with it unsatisfactory results--results which are overwhelming with respect to the tendencies they suggest. Economic entities are in an ever more difficult situation, costs are rising rapidly, and income is dropping. The banks are below the red line and are disoriented, not only because of negative differences in the rate of exchange, losses, uncollected claims, but also because of uncertainty in conducting transactions with foreign currency.... Visible exports are not growing, nor indeed are invisible exports, and the inflow of foreign exchange is dropping off. In addition, foreign indebtedness is growing.... The results of exports for January are nothing more than an illusion. They were high only in comparison with that markedly low figure for exports in January 1983, but they were considerably less than the average monthly exports for 1983. Numerous stoppages of production caused by various reasons do not afford basis for optimism that the growth of industrial production will continue. Everything supports the forecast that all relations will deteriorate if we continue with the policy in effect up to now, and even more if that policy should be radicalized.

Unable to slow down inflation and out of the fear that it might hit three digits, a price freeze was undertaken, but it has caused additional problems in the functioning of reproduction..

The balances could finally have been drawn up, and on the basis of them it could have been seen how the monetaristic concept, forcibly built into our life, has caused a further erosion of the material position of the economy and how it has boosted material costs and therefore our inflationary stairway. What is worse, it has also prepared the building materials for it to be built up still faster. Here is a sketch of this "builder's" scenario:

1. If inflation in 1983 was 60 percent, and actually it was higher, then the carryover of that inflation into 1984 is 30 percent.
2. Were the comprehensive price reforms to be carried out as intended, and if price corrections are made from basic production, electric power ... all the way to rents and municipal services--that would have a price rise impact of about 25 percent.

Steps 1 and 2 alone bring about an inflation of about 55 percent.

3. Those 55 percent, compared to a 5-percent rate of inflation in the countries with which we compare ourselves, would require, on the principle of ironing out price uncompetitiveness, devaluing the dinar by 50 percent during 1984, and that 50-percent depreciation of the dinar would cause a price rise of another 15 percent, since every percentage point of depreciation--on the basis of our experience--causes a price rise of between one-third and one-fourth of a percentage point.

We would thus arrive at a state of inflation of 70 percent.

4. If we have an inflation of 70 percent, the question is this: Must we adjust personal incomes and expenditures for government and social service expenditure? Yes, we must! If that adjustment is also made at 50 percent, then that also—with production stagnant—brings an additional inflation of another 10 percent or so.

5. The revaluation of fixed capital at that rate of inflation also causes a new inflationary addition of about 10 percent.

6. And the demands to come closer to "realistic" rates of interest bring another 10 percent or so.

We have already reached an inflation of 100 percent.

7. That level of inflation demands a new depreciation of the dinar. Now by the difference between the one already made at the inflation level of 55 percent and the new inflation level of 100 percent—which means by the difference between the added 45 percent of our inflation, which has not been "ironed out" by the rate of exchange, and that external rate of inflation of 5 percent. So, we have a new devaluation of 40 percent. If we assume that

it has a one-fourth impact on our domestic prices, then that means another 10 percent.

We have thus reached an inflation of 110 percent. The question is whether at an inflation of 100 percent, with the sliding or devaluation of the dinar of 90 or 100 percent, there will not inevitably be an effective anticipation, which has to have an impact on the rate of exchange and on prices, as well as on the price underground. Won't that also bring about new disturbances in relations between producers and slow down even more the turnover of resources and utilization of capacity? It is my assessment that this has to have a strong impact and that on the basis of experience in 1983 this could raise the rate of inflation another 20 percent.

We have thus arrived at an inflation rate of 130 percent.

8. At that level, once again, everything must be adjusted (personal incomes, government and social service expenditure, fixed capital, interest rates and the rate of exchange). This has to build up still more inflationary steps, although even those previous ones were suspended over the abyss.

This is that potential, but very real, danger which arises out of mechanical application of monetaristic parameters which are reproduced and which feed one another. Depreciation of the dinar causes inflation, and the latter sets in motion the interest rates, revaluation and indexing of everything that can be indexed. All of that initiates a new wave of inflation and a new depreciation, and so on ad infinitum--all the way to the abyss. There are no brakes which can halt that process, in which strong inflationary motors have been installed. They can slow it down only negligibly. Economic coercion is manifested here with its full strength. Likewise economic laws, since they are firmly anchored in costs, and there is very little available room for them to drop without exposure of their generators, which lie in those notorious parameters we have mentioned--as well as in the autarky and disintegrated state of our economy. And thus the enormous strength of our producers remains entangled and unused, when actually it represents the principal room that we have.

The fact that the cost generators of inflation have been set in motion by monetaristic measures is confirmed by the following computation made in approximate terms (once again without the year-end statements which we will get when they are published, but 5 months after this is written):

The inflationary shock in 1983 (relative to 1982) might be estimated as follows:

- on the basis of the rise in the costs of imported raw materials and production supplies by 600 billion dinars;
- on the basis of the higher cost of imported energy about 1,000 billion;
- on the basis of the revaluation of fixed capital about 300 billion;

--on the basis of higher interest rates about 200 billion;  
--on the basis of differences in rates of exchange which had to be paid by the economy about 200 billion--  
which in all amounts to 2,300 billion new dinars.

Some people think, since it does not affect the mechanism for passing on and multiplication of costs, that this is not very much, since it represents only 20 percent of "incurred costs" in 1983. However, those primary costs referred to--compared to "costs incurred" in 1982--alone represent a rise of 32 percent.

This is the generator, in those primary costs, which has set all the other costs in motion through the process of reproduction. Finally it created an entanglement in which even the consequences take on the character of causes. This is that witch's dance. All the factors of inflation encourage one another. Thus even those poor wages and salaries which we refer to as personal incomes--which some people say are our new advantage (!)--take on the character of a primary cost. What need is there here for any clarification when the living truth is that they are sublimated in all the other costs and represent their substance. And in particular, is there anything at all that can be explained to those who speak about the advantage we have gained by the fact that they are low. Everything here has been turned topsy-turvy, including the picture of reality in which the driving force of labor has atrophied, and so a new driving mechanism has been imposed. At present it is generating primary costs which are driving all the others.

Which accounts for the rise of prices and production costs of domestic raw materials and domestic energy. When we include here the effects of the standstill in production and the losses--then there had to be a rise in production costs of about 60 percent. It is clear in and of itself that that has been expressed in prices which also had to include the nominal rise of appropriations for government and social service expenditure and for personal incomes. That derived, though truncated, income is built into those 60 percent of the recorded rise of production costs. Thus we have arrived at an annual rate of inflation of 60 percent and a pace of inflation of 100 percent. And unless the economic policy is changed and the doctrine on which it is based rejected, that leads us in 1984 into still greater inflation or a disorder on the market and in production which offers no prospects.

Where is the confusion and the error here? The first and fundamental one<sup>26</sup> is that the basic defect in the system not been exposed in our country or, better put, has not been acknowledged and that nothing here has changed for the better, but rather for the worse.

What does that basic defect in the system consist of? Even today it consists in the complete, systemically accomplished alienation--extraction--of the money accumulation from producers who, because of that extraction, are becoming increasingly dependent, increasingly in debt and increasingly powerless, although--in objective terms--they form sufficient gross money accumulation

so that they could cover all of their real investments in fixed and working capital.

For example, in 1982 they formed a gross money accumulation (if we also include here interest paid to the banks) of 826 billion dinars, while their total real investments amounted to 746 billion.

What is the problem here? The problem is that that accumulation has been systematically taken away from them!

- a) for repayments of principal and interest; that item has swelled from year to year, back from the time when the factories were transferred to the management of the workers, when that transfer was made in such a way that the money capital was not transferred to them as well, but it was left to the state and to the banks, and the workers had to go in debt (in 1982 the economy paid 473 billion just to repay principal and interest on long-term credits for fixed and working capital);
- b) for the financing and credit financing of numerous purposes such as the major economic infrastructure, the underdeveloped opstinas, the underdeveloped republics, and the Province of Kosovo (75 billion);<sup>27</sup>
- c) for mandatory financial investments in the banks or in restricted and time deposits, in the amount of 244 billion.

Items b and c amount to 320 billion and represent accounts receivable of the economy, but those receivables of the economy, which on a cumulative basis amount to much more, are almost completely blocked and are useless--and their place is taken by indebtedness. There is hardly any such case in world experience. When we add to that amount of immobilized assets that amount of repayment of principal and interest, we come to the amount of 793 billion. And that means that we have already left the economy without any sort of money accumulation. Moreover, it has to take credits to cover that portion of its accumulation which it has committed in the difference between collected sales and billed sales.

As a result of all this--almost independently of the foreign exchange problems which it has encountered--our economy has become incapacitated for developing as an independent and responsible economic entity. It is increasingly dependent, and in the context of the money restrictions--those limits whose levels were stupidly set--it is also incapacitated from conducting business normally and establishing mutual ties and overcoming its problems through those interlinkages.

And this is the main problem and the defect. The system has not created conditions for interdependence and linkage, and accordingly it has not created space in which it would be possible to neutralize all the shocks of costs which have been arriving from all sides. Rather the reverse--the pulse in production has become ever more frequent, supply flows have become ever more problematical. Everyone has been getting along as best he could. Along with everything else, everyone has built up inventories so as not to be left

without necessary supplies tomorrow. That has also slowed down the turnover of assets, and the use of capacity has dropped off more and more--and costs have risen. There was nothing else left but to attempt to cram all that into the prices.

Just one example: in 1982 the economy paid one-fourth of its gross accumulation in interest, and that at an average rate of interest of 12 percent. What happens when that rate rises, as it did rise in 1983, or approaches the "realistic" rate of interest--and in some interpretations that signifies the rate of inflation. I assume that a response is superfluous.

The main problem referred to has been bypassed, but it is that problem that has been demanding deeper undertakings in our system for financing reproduction so as to pull the economy out of the mud of its debts. In spite of everything that would not be difficult to do if we all agreed: first, that it is overindebted, but not because of its wantonness, but because the system has taken away from it its entire gross accumulation, and if we agreed, second, that its money assets and its money investments, and indeed those mutual debts and claims ought to be treated differently.

/All those assets, which are now fettered, and the multiplied debts which have been placed on the back of the economy, would have to be freed./ Those assets, which are now fettered and captive, could then circulate, and in that circulation they would become a bridge for joining producers together, and then, being financially liberated, they would assume responsibility for the overall results--material and financial, and that also means for the type of production, for mutual relations, costs and prices, and indeed also for exports and imports. Likewise the painful process of curing the foci of illness and mutations of the existing economic structure would be carried out through those interlinkages.

And that is the main flow of the penetration of inefficiency and inflation. But that penetration cannot be neutralized either by sliding the rate of exchange nor by raising interest rates, nor by revaluations, nor indeed by a relative reduction of the personal and social standard of living, however much fat does indeed need to be squeezed out here.

What is more, the policy of the exaggerated sliding of the rate of exchange, the policy of raising interest rates, the policy of revaluation of fixed capital and now of working capital as well, and of squeezing personal incomes into the narrow space of the remainder of net income, leads us into still faster inflation and into social unrest.

That is why we ought to insist on examining this fundamental contradiction in the system we have referred to and take the principal measures here. Otherwise there is no slowing down of the powerful rise of material costs, which are larger than the social product, but are hidden like the underwater part of an iceberg. Our analyses neglect it, and as though they are under a spell, they look at only that visible part. For precisely that reason, in the system and in economic policy, we are not doing anything so that material costs would not rise, but would show a relative decline. But this is where

the principal possibilities are for anti-inflation policy, and they are related to a reform of the system for financial reproduction. Compensation, for everything under the sun, which has the effect of swelling material costs, cannot be found in the small space of the economy's income, which--if we exclude from it interest which has been paid and accumulation and funds--represents only one-tenth of the costs incurred.

/It is clear that this does not exhaust everything related to the swelling of production costs./ The large social overhead--and that is another thing--should also be built down and reduced, but that is difficult to carry out under the conditions of a stagnation in production. And that space for the way out of stagnation should be sought precisely in the context of strengthening the power and responsibility of the producers. Only in that way would we guarantee more effective, continuous and larger production, as well as the possibility of dismantling that enormous social overhead, which has grown up like a weed, from the bottom to the top of the social organization.

Along with those measures, as a third one, measures have to be carried out without delay that mercilessly cut into those immense piles of purchasing power which a segment of the population has built up over the years (without work).

The immense empty space and untapped potential which exist in our economy are immeasurably large. At present we are not tapping that potential. What is more, we are burying it at every point. That is why the overall performance of our economy is poor, which is then expressed in the inability to export, in the uncompetitiveness as to price and still greater uncompetitiveness unrelated to price of our atomized economy which has not been linked together. And in this way we are also incapacitating ourselves for the technological mutations which have been knocking loud on our door. This time we do not even have the possibility of piling up foreign credits. But for precisely that reason we ought to become aware of the fact that we do have immense capital in the unutilized potential of the economy, in that present absence of strong interlinkages in the economy, and that we must move in that direction. But if that orientation is to yield results and not to be reduced to political activism, it must be backed up with a reform of the system for financing reproduction. The room would then be found as well for that economic coercion that is now being so much talked about. Without that some of the reflections lead to economic and social disorder, which, even as a possibility, fills the sales of statism and that apologetic normativism which is swelling and growing to become a new secularized religion [original reads "region"].

What we have said has not even touched upon the numerous errors in our economic policy which have the result that certain of our inflows of foreign exchange are constantly dwindling, while certain possibilities are left unutilized. An example of such a mistake is the decline of the inflow of foreign exchange from tourism in 1982. There is a similar example in the maritime industry, especially since 1980. Just those two items--if we compare 1982 and 1980--have brought us a shortfall of \$1 billion in the inflow of foreign exchange. We can include among similar mistakes the thoughtless games, statements and changes in the domain of foreign exchange accounts and

remittances. The energy collapse because of residual fuel oil and the related stoppage of production in the export industries are a mistake of their own. The monkey business over the foreign exchange system and all the way to the case of the Molva 2 are also examples from the rich treasury of the ways in which we manage to slow down all the processes and to cause ourselves great damage, at a time when there are many things pressuring us.

For all those reasons we enter the year 1984 with numerous relations which have been undefined, and only now are we hastily reflecting about how to organize the economy with respect to the system of foreign exchange relations, how to get out of the price refrigerator which obviously is not the solution, and what sort of tax reform we ought to carry out.<sup>28</sup> Dilemmas exist even concerning the policy governing the rate of exchange of the dinar and interest rate policy. We must hope that now, "waiting for Godot"--waiting for the results of the talks with the International Monetary Fund--we will finally understand that we cannot play with all those measures which influence costs and that we will undertake everything possible to free the strength of the producers and self-management, since that is the only road that can lead us into calmer waters. We have to hope that these warnings will not arrive too late. Incidentally, they have all been presented before on various occasions and in various ways.

This entire inflationary-cost spiral is the consequence of a confusion of ideas about the crucial points and fateful links in our system of social reproduction into which everything has floated, but that fundamental defect which we have referred to as the basic contradiction in the system has not been eliminated from it. That contradiction has entangled it and distorted it, and it has thereby prevented the manifestation of its fundamental postulates which include self-management organization as our specific method of integration and transformation of property relations from state or group-ownership relations into something altogether new--social and self-management ownership. This accounts for many of the misconceptions and dilemmas, and also for many of the shortcomings and deformations. However, without those clarifications of the system it is not possible to halt inflation at all, nor to reform prices. /Without those clarifications we will be constantly playing with the dangerous monetaristic set of instruments, which makes it impossible for the pampered force of our economy to liberate itself and move freely./ Without those clarifications it will likewise make the job easier for those who are writing the indictment of our entire past.

At this point, now that the agreement has been reached with the IMF, it is obvious that the interest-cost inflationary thrust and then also that devaluation thrust might be considerably augmented. That agreement means that a very important part of the alternative conception has been eliminated from the "game." We have to draw the conclusion from this--insofar as we are at least basically agreed on the consequences which strong inflation brings--that all possible anti-inflation measures enumerated in this article have to be carried out without delay.

In first place here are all those undertakings in the domain of the monetary and credit system and policy which have been described in the article. This ought to be a radical undertaking so that the fear of turnover, and thereby the entire process of production and distribution, is freed of that enormous burden of the mass of old and new credit and so that the flows of reproduction are speeded up....

Since homogenization of the producers is an essential prerequisite for more efficient economic activity and likewise for more effective export expansion and optimization of imports--it is unavoidable to find better solutions in the sphere of foreign exchange relations. Likewise to get out of the condition of frozen prices. Foreign exchange relations, as now constituted, threaten to disrupt still more powerfully the already disturbed relations in reproduction and to express themselves in various forms of "blackmail," which would make effective development altogether impossible. Export programs would be threatened. A still larger total of raw materials, production supplies, intermediate products and products needed by the "finishers" and exporters would move toward exports.

Interests have become so polarized, and all relations have become so strained--both because of foreign exchange and because of price relations--that this could paralyze economic activity and enflame inflation still more. There is no financial assistance from abroad that can help us here. In case of a decline of efficiency, that would figure only as a new burden of obligations....

Because of all this it is unavoidable to carry out the changes indicated, by taking the burden off the economy and by homogenizing the economy, would make it possible to implement major programs in vital sectors of reproduction (petroleum, gas, heavy chemicals, metallurgy, agriculture, tourism),<sup>29</sup> and thereby large export programs.

All of that "other," which is an integral part of social action, I would not mention here. However, even all that "other," as well as what has been emphasized here as the main thing, does not necessitate hundreds of new laws, nor indeed a pile of prohibitions and a flood of threats. There is a need for consensus and an awareness that it is inevitable to urgently undertake certain moves. /And that today, not tomorrow! /

All of those undertakings are in the direction of the unshakeable development of the system of associated labor which does not exist and which cannot exist unless we prevent the process of the continual extraction of money income from OUR's in the economy. Nor without sound basic organizations of associated labor, without concluding self-management accords and vertical organization of production motivated by interest so that the resulting structures do not have an outlet with a stopper in it nor do they have walls along their edges. Diverse social coordination, all the way to Yugoslavia as a whole, is not only thrown onto the ash heap of relics by what we have said, but becomes exceedingly necessary--not only because of our present crisis and the policy of others, but also because it is an integral part of any economy organized in a modern way. That is precisely what an economy organized on the basis of self-management has to be.

So, we should immediately move into action--today--since we failed to do it "yesterday."

#### FOOTNOTES

1. In 1983 that income was \$1,037 million on the basis of the augmented debt, and the interest paid was \$1,662 million. The net result is -\$625 million.
2. I have attempted to explain this in a discussion entitled "The Blessings of Monetaristic Simplifications" (published in papers for a conference of economists in Opatija in 1983: "Aktualni problemi privrednih kretanja i ekonomskie politike Jugoslavije" [Urgent Problems Concerning Economic Developments and Economic Policy in Yugoslavia], Zagreb Economics Institute), as well as in the article "A Shortage of Ideas Rather Than a Deficit in the Balance of Payments" (published in EKONOMSKA POLITIKA, No 1647, 24 October 1983), although those two papers covered the question somewhat more broadly. Professor M. Cirovic has also written about this on several occasions, specifically in the separate documents prepared for the Commission of Federal Social Councils for the Monetary System.
3. I have written something about all this in a paper entitled "Lessons From Our Economic Past," whose title was changed by the editors of EKONOMSKA POLITIKA, and it was published under the title already mentioned "A Shortage of Ideas, Rather Than a Deficit in the Balance of Payments." I mention this so as not to have to repeat here a number of facts about the sprouting of the germs of disturbances, about the system, about the tranquilizers and about the process by which we went astray.
4. An almost comical derivation from this explanation can be heard in the USSR concerning the shortage of goods. Scarcity is explained in terms of the high purchasing power of individuals, who carry away everything that is produced, but prices do not rise, because the government does not allow it; at the same time they seem not to see the black market and gray market on which altogether different price levels prevail, a market not created by high demand, but insufficient supply and high costs, if not production costs--as far as the kolkhoz "market" is concerned--then high costs of transportation and distribution.
5. At this point we must recall Marx and his criticism of Malthus in Volume 3 of "Kapital" (p 158 and especially the footnote on p 159 of the old edition): "This smart aleck does not realize that in this case it is the change in the cost of production, that is, in the value, that has brought about...."
6. This categorization of radicalism has been worked out only in principle--in ideological terms, and that means that every demand for radical measures in the direction of eliminating excessive spending should not be regarded as unacceptable in social welfare terms. Radical demands for elimination of parasitic and unwise consumption are the best example of

this, as well as the principle that everyone live and contribute to society depending on the results of his work.

7. Our factories spend the most when they do not operate, but the workers would like to work, since this hurts them worst of all.
8. We are referring to the main course and causative agent, but that is not to deny a large number of others: the swollen administrative staff and the entire social overhead, the thoughtless broadening of numerous rights, carelessness about taxes and privatization in various ways, abuses of consumer credits and the outright theft of interest rate differentials and a portion of the inflow of foreign exchange.
9. Although it is not the intention here to enter into theories of inflation and the theory of money in any detail, the purpose of what we said above was to indicate the oversimplifications, but they are manifested everywhere. They are to be found in the monetarists, who are the grandsons of the first theorists of the quantitative theory of the value of money, brought up in a kind of conservatism, but also in the Marxists, who so heedlessly come down on the head of every monetarist and on all their premises, even though they include a great many which are important and have been correctly observed. We have always had such oversimplifications here in Yugoslavia. The incident that occurred with the late Professor Milos Vuckovic at a conference of Yugoslav economists is very instructive. He was attacked as a "quantifier," and that only because he pointed to the problem of the expansion of credit, and he was right. Even today we encounter oversimplifications--it is just that they take other forms, expressions and meanings. Our only purpose here, then, is to point to the oversimplification of the problem so that we might discuss this more elaborately when we start to treat this new inflationary eruption of ours.
10. Some kind of lag and downfall of America has been predicted and described more than once.
11. In spite of a number of clear provisions of a constitutional nature in our country, it is still not clear which are its economic functions and where are the true roots of statism. That vagueness out of which normativism arises follows from the defect in the system for formation of money accumulation and financing reproduction which has already been emphasized several times here. That is why this topic will be specifically covered here.
12. "Novac i stabilizacija" [Money and Stabilization], "Savremena administracija," Belgrade, 1982, pp 9 and 10.
13. That transformation began in 1979 with the restrictive monetary policy, and it was carried out in succeeding years--by the drop in the growth rate of gross investments (-9.3 in 1981, -6.2 in 1982 and -20 percent in 1983), by the drop in the standard of living (-1.7, -0.7 and -8.9), by the drop in the social standard of living (-4.1, -4.6 and -8.2), and

then by the sudden changes in the rate of exchange and by increasing the so-called "miscellaneous" appropriations from income, which led to a high rise of production costs.

14. As I have written about this, not only in those two writings specifically mentioned here, but also in a number of others--"Interest in Saving," journal of the Yugoslav Academy of Sciences and Arts RAD, No 387, 1980; "Formation of Accumulation and Sources of Our Inefficiency," NASE TEMA, No 12, 1981; "Defects in the System of Reproduction and Life-Saving Ideas," in the journal PODUZECE I BANKA, April 1982; "The Dead-End Roads of Economic Thought and Economic Policy," NASE TEMA, No 12, 1982; "Epistle to the Evangelists of the Rapidly Sliding Dinar," EKONOMSKA POLITIKA, 25 April 1983; and I have attempted in all of them to prove their /theoretical defectiveness, especially when they are absolutized and improperly imposed on all states, processes and relations/--I will be more concerned here with an elaboration which confirms that they have been acting counterproductively, and--so far as causing a flareup of inflationary costs--destructively. The practice of applying these measures, "parameters" and instruments is confirming this ever more obviously every day.
15. S. Radmilovic has called particular attention to this in her paper "Inflation, Monetary Restriction and Illiquidity in the Yugoslav Economy," JUGOSLAVENSKO BANKARSTVO, November 1983.
16. I am astounded by the fact that even Professor Lj. Markovic has passed over this problem of monetization (the third phase of the process in production and distribution) in his article in EKONOMSKA POLITIKA, No 1660, 23 January 1984. That is a dangerous oversight. The picture of our socioeconomic reality is distorted on that basis and a foundation is laid for a socioeconomic practice which leads on a road which I am convinced he never would have advocated.
17. That notorious share of the economy in the distribution of income, which is constantly emphasized in our country, has been declining greatly precisely because of those appropriations for interest and the like, although all the important social services are coming close to a state of complete crisis--the health service, the schools, cultural activities and social welfare. The fact that we are sowing illusions about some sort of special concern for science, when we have not peaked into that pot full of dishwater, is going to hit us in the head but good. I asked forgiveness for the sin of using that description, which has only one purpose, and that is to point out that that "dishwater" exists in all the pots and that /they all have to be opened/.
18. In 1982 it amounted to more than 1,550 billion new dinars. If we subtract from that the 430 billion of direct credits, 1,120 billion would still remain, of which the money in giro accounts amounted to only 147 billion. That in itself means that this would have covered 42 percent of the pile of credits. If we were to add to this those 430 billion of direct credits, we would arrive at a proportion of 59 percent. And that

addition is proper in view of what has been emphasized in the text as the fifth item. We should add to all this the obligatory loans which the economy has in its portfolio of receivables, when actually this is capital rendered inert.

19. The crown witnesses of this conversation are the present governor of the National Bank of Yugoslavia and the former deputy governor of that bank.
20. This section was planned as the third and final part of my trilogy on the rate of foreign exchange (the first part was the "Epistle to the Evangelists ...," the second "The Shortage of Ideas ...," and I did not intend to write a fourth, since I was certain that practice would write it as a dramatic epilogue).
21. All research has pointed us toward the fact that in our case our exports are one-third as elastic to the changes of relative prices as their elasticity to changes in the world conjuncture and that an exchange policy that stimulates exports is therefore essential. (See on this: M. Potic, "Influence of Adaptation of the Rate of Exchange of the Dinar ...," JUGOSLAVENSKO BANKARSTVO, March 1983, and an article by the same author: "The Influence of Instability ...," TRZISTE, NOVAC, KAPITAL, No 11, 1983).
22. M. Cirovic, a paper included in the material of the Commission of the Federal Social Council entitled "Proposals for Additional Construction of the Monetary-and-Credit and Banking System."
23. In Yugoslavia similar investment projects have turned into a catastrophic mistake.
24. I do not know who wrote that brief, but obviously it was by someone around the Federal Executive Council. This justification went unpublished, which means that it did not pass. So the Federal Executive Council bears no responsibility for this whatsoever. /I present it so that the ideas and the atmosphere can be grasped./ It is dated 19 October 1983 and bears the title: "Introductory Substantiation Accompanying the Draft of the Law on Foreign Exchange Transactions and Credit Relations With Foreign Countries." I quote here a portion of the text from pp 8 and 9 of that brief.
25. This view presupposes the need to revise the attitude toward the interest rate and toward revaluation of assets--which has already been mentioned.
26. And that means that it is not the only one. Quite a few of them have been enumerated in this article. However, only the system of settlement and the method of paying obligations to sociopolitical communities and communities of interest have been mentioned. Quite some time ago I called attention to the fact that that system is bad. What is more, it is masterful at turning into losers even those who objectively are not losers.

27. This does not refer to financing sociopolitical communities and the self-managing communities of interest in the social services.
28. Since numerous issues and relations related to agriculture lie outside the limits of my studies, I would mention only that we are still far from tapping the immense potential that exists there. We ought to study how "socialism has created the skill whereby the peasant produces hunger."
29. Let me only mention this by the way: Is it not paradoxical that our tourism (according to the 1983 exchange balance) brought in only \$875 million of convertible inflow, and that sum also contains the income from selling gasoline coupons. Is it not obvious that approximately \$1 billion has leaked out somewhere. And that \$1 billion is too large an amount to be passed over without questions and answers.

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SITUATION OF BOSNIA-HERCEGOVINA PENSIONERS EXAMINED

Sarajevo OSLOBODJENJE in Serbo-Croatian 14 Jul 84 p 14

[Article by Rajko Zivkovic: "How To Arrive at 31"]

[Text] Average employment period of all the 163,100 pensioners in Bosnia-Hercegovina is 24 years. No less than 149,000 pensioners in this republic have a pension below the guaranteed level. How do these people make ends meet?

For some time now Bosnia-Hercegovina has had the youngest pensioners, with the lowest pensions. However, as things are now, pressure from the workers, especially the disabled, for early retirement will not diminish in the near future, nor will there be, as it seems, more funds for a significant improvement of the pensioners' material position. The average years of work of all retirees in the republic is 24, a little more than half the total work time necessary for a "full" pension. It is said, however, that--thanks first of all to the improvement of working conditions--the number of people who retire at the proper age is increasing. From the beginning of 1979 to the end of last year the average number of work years of people retiring was 34.

The Lowest in Yugoslavia

What do these data tell us?

Statistics treat them like any others, the means of the communities of retired and disabled persons' insurance are modest, labor unions in associated labor have lately been busy mostly with their own problems, and the pensioners' organization is unable to achieve any substantial changes.

The strenuous,--30 years'--or longer or shorter, it does not matter--labor at the lathe, in the pit, on the building site, from the first day of the restoration and renewal of our country or somewhat later to mechanized plants of the present, more and more substitute muscle power is being dearly paid for today: with low pensions which, regardless of their sporadic growth and the attempt to link them with the growth of personal incomes, lag greatly behind what the workers expected while they were still working. Some pensions (by no means a small number) have for a long time been at the minimum needed for survival so that, especially at a time of escalation of the cost of living, the question must be raised: How do these people manage to make ends meet? They alone can

answer this question. Only a few of them can earn some money by selling lottery tickets, books, newspapers, and things like that.

This time we really cannot omit figures: at the beginning of the year there were in this republic 263,100 retired persons, most of whom--more than 100,000--are disabled persons, and the smallest group is constituted by those who completed their working careers--not even 30 percent. At the same time, the average pension amounted to (in dinars) 9,486.81 dinars, or 63 percent of the average personal income in Bosnia-Hercegovina last year. It seems that those who retired at the regular age receive the best pension--13,315 dinars--while the disabled workers' pension is much smaller--8.474 dinars, and the family pension is only 7,307 dinars. The average pension in Bosnia-Hercegovina is the smallest in Yugoslavia (with the exception of Macedonia), and it is not likely to be improved soon. The reason is that in this republic we have the highest number of disabled and family retirees.

#### 'Second Rate' Pensioners

The above-mentioned data is not the only reason to worry. Another reason is that as many as 149,000 pensioners (55 percent) have lower than guaranteed pensions, that is, the lowest pensions, as we used to call them. The guaranteed pension is now 8,989.90 dinars. No wonder some workers in collectives keep working until they utterly exhaust their strength in order to improve to some degree their average personal income during the last 2 or 3 years; it is an art to survive at present with those 9,000 dinars, since they do not purchase more than three full grocery bags. Every fifth pensioner in the republic gets the so-called protective income--about 2,500 dinars. The conditions for getting this supplement are strict, but it has been rather clumsily labeled so that it is regarded as a social category. Those who through no fault of their own, but because of poor working conditions or low accumulation in their field, in spite of having worked very hard while earning little, receive low pensions, are now "second-rate" pensioners. One trade union document even expresses disappointment that so few pensioners have been covered by this social measure. One should wish that no one gets it but that everybody can enjoy the full fruit of his past work. But if there is nothing better, then this protective supplement is a help in paying monthly bills.

Those who deal with the socioeconomic position of pensioners in a somewhat more organized way, know that pensions must be adjusted (percentagewise) to the growth of personal incomes. Such an adjustment (again percentagewise) was made last year, and from 1 January pensions were increased by 15 percent and later 2.4 percent, thereby being adjusted to the total growth of personal income in the republic last year. But this is a tricky calculation: for years, pensions have been losing the race with the growth of personal income. It is true that, as is well known, the funds of pension-disablement communities are limited, insufficient, but their amount is indicative of some failures in our labor and pension policy. No less than 9,000 pensioners in the republic have not solved their housing problem, and the 2,000 dinars awarded last year as a one-time help to those who have guaranteed pensions are regarded as some help and as an expression of social solidarity, but also with a certain sarcasm and commentaries like this: Was it necessary to work 30 years, more or less, in

order to receive social help from society? Anyway, the number of pensioners in very difficult material conditions today is not small. If some, more organized measures of a more permanent character are not undertaken in the very near future, we could find ourselves stuck at the bottom of the scale with the lowest pensions in the country and the smallest number of people who retired at the regular retirement age.

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YUGOSLAVIA

FEC CRITICIZED FOR INADEQUATE CONTROL OVER FOREIGN EXCHANGE

Belgrade NIN in Serbo-Croatian 15 Jul 84 pp 8-9

[Article by Ruza Cirkovic: "From End to Beginning"]

[Text] The already proverbial "outpourings of bile" directed at the Law on Foreign Exchange Transactions and Foreign Credit Relations (viewed from outside and judging by the almost perpetual debates) seem to demonstrate that "there is full awareness about what is defective and what is not being respected." All that remains to be identified is who is turning his back so powerfully on a law that has not been perfected. That is not being made known, at least not out loud.

The little breather of 6 months (not counting the squabbles with the FEC [Federal Executive Council] over postponement of the report on the law's implementation) was cut short this week. The several hours of debate in the Committee for Foreign Economic Relations are probably only the beginning. The debate has a way to go yet. It raised a new dilemma over which there will be much ado: Is the law not being implemented because someone is not doing his job as he should, or because it simply cannot be implemented? But the second half of the dilemma can also be divided into two--Is the law's implementation impossible because "it itself is no good" or because "the indispensable material (foreign exchange)" is lacking for its implementation?

Whatever the case, 6 months after the recent amendments of the foreign exchange law we still have "scalping" (sticovanje) with foreign currencies (some delegates in the Assembly have asserted that the dollar is being bought and sold at a price of 350 dinars) and domestic goods are still being sold for dollars and for marks, and we still do not have the foreign exchange market. We have, then, everything that we absolutely did not want to have, and we do not have what we wanted at all costs to have (some would say that we had to have).

The FEC was supposed to submit a report to the Yugoslav Assembly on the things that we have and about those which we lack. And it did submit it. Although some delegates made the charge that it contained some irony that was not backed up, this report of the federal government attempted to be both analytical and optimistic. It was not altogether successful in either case. Vlado Klemencic, federal secretary for finance, in view of the topic's importance, presented it before the competent Assembly committee.

### Does the Law Also Have Merit?

Judging by the report and what Klemencic told the delegates, the federal government is not dissatisfied with legislation in the field of foreign economic relations. On the contrary, it even feels that it deserves some of the credit for the rather good results we have achieved in exporting, in bringing in an inflow of foreign exchange, in correcting payments-balance positions.... And further than that, that the job of building the foreign exchange system to conform to the aims of the Long-Range ... Program has been done in the phase which can be referred to as the transitional period. Nevertheless, even the federal government does not deny that implementation of the foreign exchange law has not exactly gone as though on greased skids.

And then there was a surprise for the delegates. The socially recognized needs in reproduction, which are computed with respect to uniform criteria (the FEC is giving the green light to them) for every general association of the economy and beyond that for each individual organization of associated labor, were enumerated among the most important causes of the difficulties. After some considerable labor pains, those needs were calculated, but now they exceed the country's foreign exchange capabilities by more than \$4 billion.

Nor does the federal government deny that the chronic shortage of foreign exchange is the principal cause behind this misunderstanding, but certain causes of a purely computational nature are also mentioned. As Klemencic himself confirmed, when the socially recognized needs in reproduction were computed, it was not known that the country would refinance 2 billion of its own debt, and that amount was not taken away from the users. Nor was it known who would be using how much commodity credit, and that was not taken away either. Nor was the value of compensation transactions taken away, nor indeed even the amount of rights from previous years that had gone unused and were carried over. Those needs were calculated according to one rate of exchange against the dollar, while the country's foreign exchange and payments balances were calculated at another rate....

Dusko Anakioski of the Interest Community for Foreign Economic Relations helped out with the explanation that work is already being done to lop off those rights.

One particular difficulty lies in the holding of foreign exchange outside the country when it has been earned, but it is not reliably known even whether OUR's [organizations of associated labor] suffer consequences if they do not sell the foreign exchange which they have brought into the country on the foreign exchange market as required by law. After all, it has been calculated that more than \$600 million have been left to the economy over and above the socially recognized needs in reproduction, and that was supposed to be on the foreign exchange market. The foreign exchange representing socially recognized needs in reproduction were also supposed to reach the foreign exchange market for a certain time until needed by OUR's.

The federal government says that some segments of the foreign exchange market are nevertheless functioning. They do not include the interbank meeting of the National Bank of Yugoslavia. Not a single piece of currency has passed through this foreign exchange market in the strictest sense of the word. But foreign exchange does circulate within authorized banks, among their members--and that is the most elaborate part of the foreign exchange market. Only \$18 million have gone through the channels between commercial banks.

To be sure, something was done even at the interbank meeting, but only involving \$685 million, the amount sold by the National Bank of Yugoslavia from mandatory appropriations.

The Proposal ...

Although the mini foreign exchange markets could not operate better, the commercial banks are having serious difficulties in securing foreign exchange for the needs in reproduction of their own members. In July there were even four of them who did not have a single dollar for these purposes.

Dr Borisav Jovic, delegate of Serbia in the Chamber of Republics and Provinces, was obviously irritated by certain of the optimistic assessments of the FEC about implementation of the foreign exchange law, and at the very outset of his "response" to the FEC he immediately referred to all the things that have been happening concerning the foreign exchange law as a drastic example of tearing down the policy of economic stabilization.

He categorically demanded that measures of legal and other accountability be undertaken because of the discrepancy that has occurred between the socially recognized needs and the country's foreign exchange capabilities. He specifically demanded the political accountability of the Federal Executive Council, which should have been mindful of that adjustment. Jovic also asserted that no measures whatsoever had been taken to see whether OUR's actually did sell \$635 million of surplus on the foreign exchange market. Nor is there any followup, according to Jovic, as to the provision in the law which suspends credits to OUR's which hold foreign exchange in their foreign exchange accounts longer than 15 days. According to him, the issue should also be raised of the accountability of the National Bank of Yugoslavia, which has not been monitoring the national banks of the republics and provinces, and then the accountability of the latter for not having monitored the commercial banks, and then in turn the accountability of the commercial banks, which have been extending credits to those who have been violating regulations.

By contrast with the FEC, which is announcing certain small changes in the foreign exchange law, Jovic feels that many essential changes are necessary and that the difficulties are every day coming to a head. The evidence is obvious: it is still in the interest of OUR's to hold their foreign exchange as long as possible in the country, it is in their interest to make expenditures from their foreign exchange accounts as soon as possible, and it is in their interest to sell raw materials abroad even though they would get more for them in the country.

"These facts," Jovic said, "are not being studied sufficiently, the FEC and the responsible authorities have not yet paid them due attention, and that is why this matter should be turned over to the Assembly of Yugoslavia. Create a commission here for completing construction of the foreign exchange system which could also include a representative of the FEC. Let them allow us to do that, and then let them criticize us."

This interesting proposal deserves a much more fundamental explanation and not one related solely to the foreign exchange system. Although Jovic was persistent in insisting that a decision be taken on this proposal, its final fate was not decided.

... And Defense

Only Jovic was as severe as this toward the FEC's outlook on implementation of the foreign exchange law. Many were critical of it, but in a somewhat milder form. Only the delegates Stipe Tojcic (Croatia) and Miran Mejak (Slovenia) showed a full understanding toward the report.

Tojcic immediately concluded that the FEC report was quite in order and that for such a short time it covered everything that could have been evaluated. As for the nonoperation of the foreign exchange market, this has nothing to do with failure to implement the law, but only with the shortage of foreign exchange. Nor is it possible to accept the assessments, Tojcic explained, to the effect that the present law has been satisfactorily regulating relations in the transitional period and that the conditions have come about for it to be amended and for permanent solutions to be sought. This assessment cannot be accepted precisely from the standpoint of the Long-Range Economic Stabilization Program, Tojcic went on, since that program did not define the transitional period in terms of a time interval, but rather in terms of the essence of the relations between economic entities and in terms of the country's overall problems in the field of foreign economic relations. Neither those relations nor problems have been altered to such an extent that one could conclude that the transitional period is over.

"Given the global shortage of foreign exchange," Tojcic said, "and the failure to meet the export targets, the instruments of the transitional period need to be retained."

Miran Mejak (Slovenia) also feels that the shortage of foreign exchange is the main cause of nonimplementation of certain intentions of the foreign exchange law, and certainly not because anyone is reluctant, or because someone thinks differently, or because someone is trying to shoot down the law. Mejak rightly demanded that an end be put to the blanket accusations and that a statement be finally made as to who is holding foreign exchange beyond the period established by law, who is scalping with foreign exchange at astronomical prices, let it be seen what the commissions in the national banks are doing, let it be seen who is signing the fictitious self-management accords, and let the offenders be punished.

"This kind of cramming everyone into one basket," Mejak believes, "stands in the way of an effective solution of the problem."

Thus matters stand once again as they were at the outset. For 2 years the same arguments have been repeated in a discussion (an exhausting marathon) which has often gone back to dilemmas that have already been debated. To that extent the demand that a body of the Assembly now take matters into its own hands is only an attempt to prevent yet another return to the very beginning.

[Box, p 8]

#### Redistribution of Exports

In the first half of this year Yugoslav goods were sold on the markets of 145 countries. The quantities of goods sold in the various parts of the world were, to be sure, sometimes symbolic, nor is the total growth of exports in the first half of the year impressive--exports rose about 5 percent compared to the same period of last year.

Consoling figures about our exports are coming in from the industrially advanced countries. Exports to those countries are up 30 percent.

If we look at the internal distribution of export performance, the greatest success has been achieved at first glance by Montenegro (32 percent), Vojvodina (16) and Kosovo (13), while in Serbia proper exports are down 2 percent from last year. Montenegro and Kosovo, however, fell short last year, so that their basis for comparing this year's exports was low.

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